THE Freeman

IDEAS ON LIBERTY

JULY 1966

Constitutions Should Say No	*William Henry Chamberlin*	3
"Creative Federalism"	*Leonard E. Read*	9
How to Finance a War	*Willard M. Fox*	12
The Spirit of Liberty	*Learned Hand*	18
Income Without Work	*Henry Hazlitt*	20
An Admission of Failure	*Donald Walter Shorock*	36
The Flight from Reality: 22. Divide and Conquer	*Clarence B. Carson*	38
The Independent School	*John F. Gummere*	50
The Businessman — Hero or Villain?	*William E. Peterson*	52
Books:		
Of Men and Not of Law	*John Chamberlain*	60
Other Books		63

THE FOUNDATION
FOR ECONOMIC EDUCATION, INC.
Irvington-on-Hudson, New York 10533

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

FREE

Two Stimulating, Exciting New Brochures on

LAW AND ORDER

Throughout the land, the forces of law and order are being opposed by some individuals and groups. Our nation is strong but we are only as strong as our individual desires to maintain this strength. There are things we can do, so let's start doing them today. Ask for "LAW AND ORDER—As Seen By Two Authorities" and "Myth or Truth?—WITHOUT LAW AND ORDER, SOCIETY WILL DESTROY ITSELF." Coast Federal Savings will be happy to send you these two exciting, new brochures, absolutely free.

Your savings earn ***4.97%*** *when held one year at current rate of* ***4.85%****, paid semi-annually.*

6-129A-1

COAST FEDERAL SAVINGS

AND LOAN ASSOCIATION

To: George Ross, Department FM, Coast Federal Savings and Loan Association
9th & Hill Streets, Los Angeles, California 90014

☐ Please send me the free brochures on "Law and Order."

☐ Yes, I'd like to open a savings account. Enclosed is my check (or money order) for $_____

☐ Individual Account

☐ Joint Account

☐ Please transfer my account

Name(s)_____
(Please Print)

_____

Street_____

City_____ State_____ Zip_____

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN

JULY 1966

Vol. 16, No. 7

IN THIS ISSUE

The vital function of a Constitution is to place limits on the power of government, says William Henry Chamberlin, and the function of citizens is to know why ..... p. 3

Behind the label of "Creative Federalism," Leonard Read sees a great deal of coercion ..... p. 9

It's almost impossible to win a war if the fighting men and materials are to be supplied by the next generation, suggests Willard Fox ..... p. 12

The times commend repeating and remembering what Judge Learned Hand had to say about the "Spirit of Liberty" in the hearts of men ..... p. 18

Henry Hazlitt explores and deplores the "new" idea of guaranteeing everyone an income, whether or not he has tried to earn it ..... p. 20

"Isn't an idea a failure if it has to be 'sold' to others by force?" asks this young man ..... p. 36

And in this chapter of **The Flight from Reality,** Professor Carson examines the reformist tactic of "divide and conquer." ..... p. 38

The advantages of the independent school are explained by a man who "owns" one — or, at least, puts his trust there ..... p. 50

Dr. William Peterson, business economist, suggests that the businessman does a job, for himself, and for his customers, that makes him neither a hero nor a villain ..... p. 52

Lyman Garber's **Of Men and Not of Law,** a study of Supreme Court rulings since 1930, affords reviewer Chamberlain an opportunity to revert to the Constitution ..... p. 60

The Reverend Norman S. Ream commends the several authors who would buck the socialistic trend in **Your Church — Their Target** ..... p. 63

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE Freeman

JULY 1966 Vol. 16, No. 7

LEONARD E. READ *President,* Foundation for Economic Education

PAUL L. POIROT *Managing Editor*

THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit educational champion of private property, the free market, the profit and loss system, and limited government, founded in 1946, with offices at Irvington-on-Hudson, New York. Any interested person may receive its publications for the asking. The costs of Foundation projects and services, including THE FREEMAN, are met through voluntary donations. Total expenses average $12.00 a year per person on the mailing list. Donations are invited in any amount – $5.00 to $10,000 – as the means of maintaining and extending the Foundation's work.

Copyright, 1966, The Foundation for Economic Education, Inc. Printed in U.S.A.

Additional copies, postpaid, to one address: Single copy, 50 cents; 3 for $1.00; 25 or more, 20 cents each.

Permission is hereby granted to anyone to reprint any article in whole or in part, providing customary credit is given, except "The Flight from Reality" and "The Businessman – Hero or Villain?"

Any current article will be supplied in reprint form if there are enough inquiries to justify the cost of the printing.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

WILLIAM HENRY CHAMBERLIN

CONSTITUTIONS SHOULD SAY NO

A timely reminder of some profound political truths by a long-time observer, student, and analyst of men and their governments.

TWO THOUSAND YEARS and more of recorded history, confirmed most emphatically by the experience of our own time, prove that tyrannical government, without check, balance, or limitation, is the greatest evil to which humanity is liable. The Greek city-state of Athens and the Roman Republic, on a larger scale, worked out elaborate constitutional safeguards against the emergence of a dictator, tyrant, or king. Athens went so far as to institute ostracism, or banishment, by vote of the people, for any citizen who seemed to endanger the republican constitution.

Rome instituted a complicated system of checks and balances. Executive power was vested for a year at a time in the hands of two consuls, each a potential watchdog on the other. While important functions were entrusted to the aristocratic Senate, the populace was given a voice and a share in the government through the elected tribunes of the people, whose veto could check any proposed legislation. The Roman constitution could not have been easy to operate. Yet it worked well enough to permit Rome to become the dominant power in the ancient Mediterranean world. Then, for various reasons, not the least being the absence of external challenge and the development of a socially unhealthy system based on slave labor, internal dissensions began to place an intolerable strain on the old constitutional fabric. The old rules and restraints were

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

more and more disregarded and gave way to sheer tests of factional violence, fought out with all the cruelty and bloodshed characteristic of revolutions and counterrevolutions of the present time.

With the checks and balances discarded, the stage was set for the emergence of the "strong man" who would subdue the whole state to his own will; and this figure appeared in Julius Caesar. Caesar possessed rare energy and genius as soldier and statesman, writer and administrator. But he left behind him a legacy of absolute power which carried within it the seeds of the decline and fall, so brilliantly described in Gibbon's mighty historical work.

The Century of Totalitarianism

It is no accident that the biggest and most shocking crimes against human beings have always been perpetrated by dictatorial governments, operating without any restraint of law or constitution. This century has witnessed more than its share of such crimes: the liquidation of the kulaks and mass starvation of peasants who did not wish to give up their individual farms, the mass arrests, executions, deportations, and slave labor system in the Soviet Union; the horrible slaughter of the Jews and vast cruelties inflicted both on dissenters at home and people in occupied countries by the Nazis; the similar acts of terrorism in Red China.

All these measures claimed far more victims than acts of tyranny that shocked the more tender conscience of the nineteenth century, and for an obvious reason. The twentieth century is the century of totalitarianism. And totalitarian terror stifles the voice of protest and takes away from those who live under it any means of denouncing or resisting, because the slightest move in opposition is calculated to bring fearful reprisals not only on the individual, but on members of his family.

This is why one of the most important functions of an effective constitution is that of saying "No" to the invariable temptation of agents of government to stretch and abuse the powers with which they are entrusted. One of many reasons why it is worth while to reread the Constitution of the United States is to note how many prohibitions it contains. To quote a few examples:

> The privilege of the writ of habeas corpus shall *not* be suspended unless when in cases of rebellion or invasion the public safety may require it.
>
> *No* bill of attainder or ex post facto law shall be passed.
>
> *No* capitation or other direct tax shall be laid, unless in proportion to

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the census or enumeration herein before directed to be taken. (This prevented the levy of a graduated income tax until the Sixteenth Amendment, of unhappy memory, was passed.)

Congress shall make *no* law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble and to petition the Government for a redress of grievances.

The right of the people to be secure in their persons, houses, papers, and effects against unreasonable searches and seizures shall *not* be violated and *no* warrants shall issue, but upon probable cause, supported by oath or affirmation, and particularly describing the place to be searched, and the persons or things to be seized.

Excessive bail shall *not* be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted.

The enumeration in the Constitution of certain rights shall *not* be construed to deny or disparage others retained by the people.

The powers *not* delegated to the United States by the Constitution, *nor* prohibited by it to the states, are reserved to the states respectively, or to the people. (Italics supplied)

No Positive Action Promised

Along with this multitude of "Don'ts" to governing power, some of them now diluted or eliminated by amendments or recent decisions of the Supreme Court, there is conspicuous absence of the promises of affirmative state action which are now the stock-in-trade of every up-and-coming politician and may also be found in the constitutions of totalitarian states. The framers of the Constitution — a process admirably described in Clinton Rossiter's recently published work, *The Grand Convention* (Macmillan, 443 pp., $7.95) — were not in the vote-buying business. They did not promise the American people to make them healthy, wealthy, and wise. They shared the negative view of the proper role of the state voiced by their great contemporary political thinker, Edmund Burke:

> To provide for us in our necessities is not in the power of government. It would be a vain presumption in statesmen to think they can do it. . . . It is in the power of government to prevent much evil; it can do very little positive good in this, or perhaps in anything else.

And the long string of "Don'ts," directed to the address of government, and of Congress itself, in the Constitution reflects Burke's well-turned warning against legislative tyranny:

> It would be hard to point out any error more truly subversive of all the order and beauty, of all the peace and happiness of human society than the position that any body of men may make what laws they choose.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Burke Opposed Tyranny

Burke still is regarded in some circles as a reactionary. This is because of a rather lazy intellectual view that, by and large, the French Revolution turned out for the best and that Burke, in his celebrated indictment of this movement, was merely pleading the lost cause of monarchy and aristocracy. What Burke opposed was not constitutional democracy, of the type established under the Constitution of the United States. He spoke strongly for the American cause during the War of the Revolution, on the ground that the colonists were merely asserting the proper rights of freeborn Englishmen.

What Burke denounced, and with good reason, was Jacobin democracy, as preached and practiced by Robespierre and other extremist ideologues of the French Revolution. This, as Burke correctly foresaw, led not to ordered liberty but to a kind of preview of communism, with a small group of dedicated fanatics ruling the masses of the people, supposedly for their own good, with the guillotine as the final sanction. It is interesting to recall that John Adams, who was not one of the framers of the Constitution, but who wrote a long vindication of it, was just as negative as Burke in his reaction to the French Revolution in its extreme terrorist phase. Skeptical of the teachings of Rousseau, the Marx of the Jacobins, Adams called the French Encyclopedists "totally destitute of common sense." His verdict on the Revolution and its intellectual precursors was expressed in language as tart as a New England apple:

> Helvetius and Rousseau preached to the French nation *liberty*, till they made them the most mechanical slaves; *equality*, until they destroyed all equity; *humanity*, until they became weasels and African panthers; and *fraternity*, till they cut one another's throats like Roman gladiators.

And, in a letter to the well-known surgeon, Benjamin Rush, Adams explained his difference of opinion on this subject with Thomas Jefferson:

> He thought it wise and good and that it would end in the establishment of a free republic. I saw through it, to the end of it, before it broke out, and was sure it could end only in a restoration of the Bourbons, or a military despotism, after deluging France and Europe in blood.

In his *Defense of the Constitution* Adams wrestled hard with the many perplexing issues that confronted the founders of a new nation. After the British rule had been overthrown, it was necessary to create on new foundations a republican government that would

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

steer a middle course between the twin threats of despotism on one side and chaotic anarchy on the other. With his stern Calvinist background, and the practical knowledge of human foibles which he had experienced as one of the political leaders of the American Revolution, Adams placed little reliance in the natural goodness of human nature. As he put it:

> Though we allow benevolence and generous affections to exist in the human breast, yet every moral theorist will admit the selfish passions in the generality of men to be the strongest. . . . Self-interest, private avidity, ambition, and avarice will exist in every state of society and under every form of government. . . .
>
> To expect self-denial from men, when they have a majority in their favor and consequently power to gratify themselves, is to disbelieve all history and universal experience.

A Balance of Power

What then is a safe formula for entrusting the powers of government to fallible human beings who are apt to be selfish and ambitious? Adams comes up with a solution that may not be perfect, but is preferable, on the basis of experience, to any other. He starts from the proposition that "simple unchecked government," whether exercised by a king, by an aristocracy, or by the mass of the people, is equally intolerant, bloody, cruel, oppressive, and tyrannical. And he reaches the conclusion that the only sound and durable form of government is one so nicely balanced that ambition will check ambition and power will check power.

The international balance of power, abused as it is by advocates of world government and other utopian schemes, has proved as effective as any device for keeping peace among nations. By the same token, the most tolerable formula for stable, free, and orderly government, in the opinion of Adams, the most distinguished political thinker of the Revolution, is a carefully adjusted balance of power between social groups and agencies of government. He regards respect for private property as an indispensable condition for the maintenance of liberty. And his prescription for the type of government with the best assurance of preserving liberty, property, order, and stability is as follows:

> The essence of a free government consists in an effectual control of rivalries. The executive and legislative powers are natural rivals; and if each has not an effective control over the other, the weaker will ever be the lamb in the paws of the wolf. The nation which will not adopt an equilibrium of power must adopt a despotism. There is no other alternative.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Rivalries must be controlled, or they will throw all things into confusion; and there is nothing but despotism or a balance of power that can control them.

Even a superficial study of the United States Constitution shows that the Founding Fathers shared John Adams' distrust of unchecked, unlimited power, whether vested in a single man, an oligarchy, or a legislative majority. One need only recall the distribution of power between co-equal branches of government, legislative, executive, and judicial, no one of which is supposed to dominate or disregard the other two. Or the great compromise which made the Constitution possible, the provision of population as the basis for the choice of members of the House of Representatives, while two seats in the Senate were assigned to each state. Or the many prohibitions, based on natural law and the inherent rights of citizens, imposed on action by the three branches of the government. Or the forbidding, in the original version of the Constitution, of the graduated income tax which may well be considered a form of cruel and unusual punishment.

The Founding Fathers were not setting up an egalitarian democracy, which would have horrified most of them. They were laying the foundations of a republic under a government of limited and divided powers, and with as many safeguards as might be devised against any man or body acquiring excessive power, and also with checks and balances against overhasty actions by the sovereign people themselves.

One American statesman, who was also a first-rate political thinker, John C. Calhoun, suggested an additional check and balance in the shape of what he called the concurrent majority. According to this theory, no law should be passed without the approval of all important regional and economic interest groups. This, of course, might create difficulties for the easy functioning of government. However, there are many examples of the inadvisability of using a majority to jam through legislation which is very obnoxious to an important minority or section of the country.

A written constitution is, after all, only a scrap of paper. The real guarantee of preserving a limited government of checks and balances with respect for the rights of minorities must lie in the hearts and minds of the people. Yet, there are advantages in having an instrument plentifully supplied with negatives that offers assurance that there are some things that government may not legally do. ◈

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"Creative Federalism"

LEONARD E. READ

EVERY PROMOTER wants an attractive label regardless of what goods or services or ideas his package contains. So, we sometimes find pronounced discrepancies between the label and the content.

The word *liberal,* for instance, once fairly labeled those who stood for the liberation of the individual from government domination. But this attractive and desirable label has since been expropriated by those favoring what the original liberals opposed – until it now means nothing more than a liberality with other people's money.

Creative federalism is one of the newer masterpieces of labeling. *Creative* conjures up man's highest aspiration; *federalism,* in the American tradition, calls to mind the separation of powers, the checks and balances against unlimited political authority, always with a view toward maximizing the freedom of choice of the creative individual.[1] Taken together, the two words constitute a semantic *tour de force.*

Each word, however, has been lifted from its traditional setting and made to adorn a concept of opposite content. Yet, a certain rationalization supports the use of both *creative* and *federalism* in the current context. To see the substance beyond the label, we must examine the rationalizations.

Federalism here, of course, denies the historical concept. Instead of the Federal establishment having only those powers specifically ceded by the people and the the states – really their agency and nothing more – the new *federalism* aims at the states having such powers and monies as are

[1] See Gottfried Dietze's *The Federalist: A Classic on Federalism and Free Government* (Baltimore: Johns Hopkins Press, 1960), especially pp. 255-285.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ceded by the central government, a reversal of roles, with citizens as mere wards of the government. This proposed new relation between national and local governments still may be deemed a type of federalism, but lost entirely is the original emphasis on the dignity of the individual.

But just how can the word *creative* be rationalized in this new strengthening of the governmental monopoly at the national level?

The Erosion of Capital

The states and municipalities, as well as the Federal government, have the power to impose direct tax levies. But political expediency limits the percentage of the people's wealth that can be obtained in this manner. Beyond a certain point – usually when the total take exceeds the 20-25 per cent level – the voters revolt; they'll have no more of it. Thus this method serves to put a crimp in spending and to keep governments within bounds, more or less.

But the Federal government – alone among the more than two hundred thousand units of government in the U.S.A.– has a way of *creating* funds beyond what can be collected by direct tax levies, out of thin air, seemingly! Not only is it now creating all of the funds it wants for ever-expanding Federal activities, but it urges the use of these Federally created funds upon the lesser governments. Indeed, foreign governments are urged to feed at its cornucopia. Because the desires of governments are insatiable, the program is not difficult to sell. More than anything else, this "creativity" accounts for the shift in political sovereignty from the states to the central government.

When we observe a magician at his trade, we ask, "Where, really, does that rabbit come from?" And, in this case, we are warranted in wondering from where these countless billions come. We know, in our saner moments, that real wealth can no more be created from thin air than from direct tax levies.

These "created" monies come from an indirect tax on savers and lenders, in short, a confiscation of capital. The effect, unlike a local tax or a bill from the IRS, is not immediate but, instead, is indirect and delayed or, as the Spanish put it, *mañana*. The method takes advantage of, and at the same time fosters, the prevalent urge to spend and live it up today with no concern for the morrow.

Too technical for a brief explanation, the Federal "creativity" is achieved, in a word, by the monetization of debt; that is, the Federal government's IOU's are turned into money. The more the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

government spends, the more it goes in debt; the greater the debt, the more IOU's; the more IOU's, the more money.

But not at all technical is a demonstration of how this *mañana* byplay works in large-scale practice: Only 26 years ago, two Argentine pesos were exchangeable for a 1940 American dollar. That dollar, in the meantime, has declined 60 per cent in purchasing power. Related to the 1940 dollar, it is now worth 40 cents. Today, 240 pesos—not two—are exchangeable for our cheapened dollar.

The Power to Create Money

Now observe how this type of "creativity" taxes capital: In 1940, let us say, you stashed 240 pesos under the mattress. What in 1966 remains to you in terms of 1940 purchasing value? Exactly 40 centavos! In brief, the Argentine policy of diluting the medium of exchange (inflation) as a means of financing governmental activities – precisely what we are doing, although on a lesser scale, as yet – has taxed away 239.60 of your 240 pesos!

Unlike a direct tax levy which garnishees your income and/or capital right now, this "creativity" takes the form of slow capital erosion. For the most part, erosion goes unnoticed: one rarely feels older today than yesterday; one senses no less capital today than the day before, particularly if one has more dollars; yet erosion, though rarely perceived, leads to the point where finally nothing remains to erode.[2]

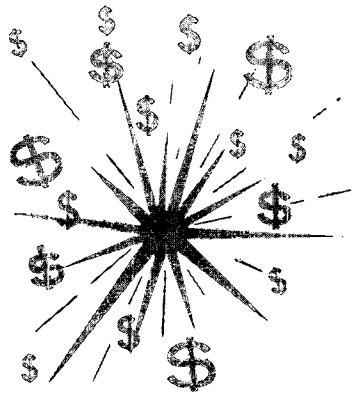
To conclude our look beyond the label and at the substance, socialism is the state ownership and control of the means of production (the planned economy) and/or the state ownership and control of the results of production (the welfare state). The new *federalism* qualifies as socialism pure and simple. Socialism – all of it – is founded on coercion. Were coercion absent, then it would not be socialism.

Thus, if *creative* and *federalism* were to be defined in their traditional sense, *creative federalism* is the same contradiction in terms as *creative socialism* or *creative coercion*. The label can only become popular among those who do not know or care what the substance is. ◈

[2] A government resorts to inflation because the process garners billions in revenue with very little protest from the owner sources. The reason for the lack of protest is an unnoticed erosion of the medium of exchange. For instance, the dollar that has lost 60 per cent of its purchasing value in the past 26 years has eroded at the rate of 1/158th of a cent per day. Who can notice that?

Reprints available, 2 cents each.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



HOW TO FINANCE A WAR

WILLARD M. FOX

DESPITE General MacArthur's warning that there is no substitute for victory, the United States is once again bogged down in an Asian war that it apparently wants neither to win nor to lose. Having learned nothing about how to finance wars from its experiences in two World Wars and Korea, it is again relying on a thinly disguised running of the printing presses. *Barron's* for May 16, 1966, in its listing of U.S. Treasury issues, does not show even one offered as high as par, including the May '66 3¾s. Yields, varying with coupon rate and maturity, range from a low of 4.01 to a high of 4.99 per cent. Such high yields reflect bond specialists' doubts about the future of the dollar, which in terms of 1939 values is worth about 43¼ cents.

Mr. Fox is a market research executive now residing in Costa Rica.

War is clearly waste – waste of the lives of the killed; waste of the physical well-being of the maimed; waste of the time of the men who are fortunate enough to come home safe and sound, despite their loss of productive years; and it is waste of munitions consumed and stockpiled unused as well as the capital goods worn out in producing them. It is a wasteful activity from an economic point of view, no matter how successful it may be politically, nor how quick the victory. I am neither a pacifist nor a peace-at-any-price man. I happen to believe that, given the world in which we live, force does change things and that the purpose of waging war is to win decisively at the least possible cost in order to impose one's will upon the vanquished. But I deplore war as waste of human and material resources.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Present Burden

Since we are engaged in war, we have to face the question of how to finance its cost. If we look behind the veil of money, it is plain to see that the true cost can be met only out of a combination of past savings and current production.

It is as impossible to shift the material costs to the taxpayers of 1996 as it is to shift the burden of combat to the youngsters who will be of military age in 1996. Only men now living and only capital goods and materials now in being can be employed to wage war in Vietnam in 1966. There is no way to borrow them from the future.

Moreover, it is plain that there is no possible way to use the same bit of steel today both in a mortar and a motor. Every ton of steel, every pound of copper, every ounce of silver that goes into war *materiel* and is consumed or destroyed is lost at least for the present and probably irrevocably. Hence, it follows that every day each man devotes to military service and each machine and each pound of material that are used up for military purposes are completely lost to the civilian economy and to the satisfaction of the wants and needs of the civilian population as consumers.

Since, economically, war is waste, and it wastes existing – not future – manpower, capital goods, and raw materials, it is clear that the real cost of waging war is borne by the living who are deprived of things that in the absence of war could be produced and consumed in ordinary peacetime life. No amount of fiscal hocus pocus can change that reality.

This being the case, it is futile to try to shift the cost of the war in Vietnam to future generations of taxpayers. They will be poorer because of it than they would otherwise have been, if only because they will fail to inherit the capital goods that might otherwise have been produced with the labor, existing capital goods, and materials devoted to Vietnam. Incidentally, this is equally true of all "foreign aid" that consists of outright gifts and loans made on terms that do not cover in full the debt service and repayment of principal in money equal in purchasing power to the sums lent. It is also true of all domestic malinvestments by governments in projects that cannot recover all their open and hidden costs.

Both Methods Tried

The method the United States has used to finance its wars in this century has been mixed. To a limited degree, it has taken purchasing power from the citizenry by taxation and by the noninfla-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tionary sale of bonds paid for by genuine saving of funds that otherwise would have been spent on consumers' goods or invested directly or indirectly in capital goods. This source, however, has been a mere drop in the bucket.

The major source has been a thinly disguised printing of money. There has been nothing as blatant — or as naive — as the printing of Continentals or Greenbacks. There are more subtle ways, especially since the United States abandoned commodity money. When citizens cannot freely exchange bank notes for gold, they can do nothing effective to prevent the Treasury and the "Fed" from forcing the commercial banks to "buy" engraved pieces of paper for which they "pay" with a credit against which the government can write checks. Then, since the "Fed" by law accepts these pieces of paper as collateral for loans, they can create additional "reserves" by depositing them and thus prepare themselves to create more deposits.

Artificial Prosperity

Meanwhile, the civilian population, and particularly the portion engaged in the "war effort," enjoys prosperity. This prosperity, in fact, amounts to little but the possession of a lot of unspendable dollars, or dollars that can only be spent for certain available items —mostly luxuries. In World War I, bricklayers and foundry workers labored in pure silk shirts, since they were about the only consumers' good not in short supply. In World War II the "real" money was ration points, and dollars were not good for much except unknown brands of cigarettes, for which people stood in line for hours, plus whatever they could promote in the black market. The real cost of wars is paid for currently as they are fought by going without the normal civilian goods that cannot be produced at all, or at least not in the quantities wanted. Not even General Motors executives could get 1944 Cadillacs or Buicks nor Chrysler employees 1943 Plymouths, no matter the size of their paper dollar pay checks.

The legacy of this mode of financing a war we all know. It is our 43¼ cent current dollar. Granted, war financing is not the sole cause of the loss of purchasing power of the dollar. Other nonproductive, deficit-financed government expenditures have contributed to the erosion; to what extent is uncertain. But if that had been all, and had we not spent more than $110 billion in "foreign aid" since 1945, we might today have a 90 cent or a 75 cent dollar.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Inequalities Abound

This illusory "war prosperity" is popular. It enables politicians and union officials to tell their followers, "You never had it so good," when the clear fact is that they are not able to buy unrestricted quantities of coffee, beef, shoes, and automobiles and other consumers' durables. All they have —and only the savers have that much—is a claim on a problematic supply of goods when those goods are actually produced in the future and sold against diluted dollars. Unfortunately, not everybody shares equally and simultaneously in this "war prosperity." Those who live on fixed or virtually fixed incomes are hurt at once and forever after. Those whose skills are little wanted, and who share a trickle of the newly created money only after it has passed through many other hands, certainly lose relatively and usually absolutely, since their incomes lag while prices both officially and on the black market soar. Debtors, who nowadays are mostly the rich who are smart enough to get as much leverage as they can for their own equity by working as much as they can with borrowed funds, and those whose skills make them eagerly sought and highly paid by firms engaged in war production do gain relatively and perhaps absolutely. Economically, the financing of war by inflation is as unfair as the process by which John Brown is assigned to combat duty and gets killed or maimed and James Smith spends his service time running a computer in the Pentagon; though, of course, the outcome is much more serious for the families of the killed and the individuals who are maimed and their dependents.

Facing the Problem

Enough has been said to indicate the politically courageous and morally correct way to finance wars. That is to impose, insofar as possible and that is quite far, the money costs where the real costs fall anyhow. That is to tax away substantially all the incremental earnings of the civilian population as these earnings accrue. To write an equitable tax law that would accomplish this would tax the ingenuity of economists and tax lawyers; but with sufficient ingenuity and intelligence it might be done. Rightly or wrongly, people are accustomed to and accept progressive taxation. Business has accepted an 82 per cent combined income and excess profits tax. While entrepreneural executives have no monopoly of patriotism, they are at least as patriotic as the general population. Hence, they could be expected

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

to go along with seeing practically all their increased profits taxed away, provided other individuals also were deprived of their income gains by a tax that took substantially all the increase in earned incomes.

Additional Money Causes Prices to Rise

Obviously, no businessman in his right mind prefers war orders to normal orders from his regular customers, for he knows that they are temporary and largely illusory and that reconversion to peacetime activities is time consuming and expensive and carries the risk of losing position in the market. Yet, by a combination of persuasion, appeals to patriotism, veiled threats of coercion, and bidding a high enough price, government can get what it wants in the market. Furthermore, many businessmen (and many other people) are careless or sloppy thinkers. Many executives think of x per cent being a "fair return" on sales or y per cent as a "fair return" on invested capital. If they know that neither themselves and their competitors nor their employees and the general population are going to be allowed to keep much, if any, of their increased cash flow, they are under no unusual pressure to raise prices.

True, there may be some diehards who will not take or at least not seek war orders; but they can be handled. Since they would be forewarned that their normal customers are going to be taxed to pay for the current cost of the war out of current income, they would see that their normal market would shrink and their normal production would be partly unsold, for lack of customers with money to spend for normal use of the goods in question. Hence, they could not afford to bid for strategic commodities against firms taking war orders since their customers would lack the means to pay even customary prices, let alone increased prices; nor could they match wage increases (even though virtually all the increases be taxed away). Hence, to avoid idle plant, they would be obliged to fall in line.

If substantially as much money would be taken out of the economy by the tax collector as is put in by the purchasing agent of the Defense Department, then regardless of the money prices paid for the goods consumed in the war, there need be no war-induced increase in the money supply or rise in prices generally. This is not to say that the war would be without effect. It would affect everybody to some extent and it would involve waste of capital goods and

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

war *materiel*. Everybody would be poorer because of the wasteful demands of war. However, the postwar hangover of a lot of newly created money chasing after a reduced stock of goods would be largely or entirely avoided. The money cost and the real cost would both be met during the period of hostilities.

It now appears that the Vietnamese war may be prolonged, since the United States does not seek victory and, presumably, does not want defeat. There is also a possibility that a miscalculation in Hanoi, Peking, Moscow, or Washington might bring China and possibly Russia into the war. Should such a disaster occur, the costs would multiply enormously; and the real costs would still have to come out of savings plus current production. It would be naive, indeed, to suppose that any government, particularly a government strongly influenced by union leadership and economists sympathetic to the welfare state, would have the moral courage and intellectual integrity to tell its people that war, however necessary politically, is economic waste that must be paid for out of current production and that it would be wise and fair to collect the money cost at the same time that men are being sent to death or permanent injury. Individuals have to discover these harsh facts for themselves. ◈

IDEAS ON LIBERTY

Pay Cash

WHEN BONAPARTE took the consulship, the condition of fiscal affairs was appalling. The government was bankrupt; an immense debt was unpaid. The further collection of taxes seemed impossible; the assessments were in hopeless confusion. . . . At the first cabinet council Bonaparte was asked what he intended to do. He replied, "I will pay cash or pay nothing." From this time he conducted all his operations on this basis. . . .

When the first great European coalition was formed against the Empire, Napoleon was hard pressed financially, and it was proposed to resort to paper money; but he wrote to his minister, "While I live, I will never resort to irredeemable paper." He never did, and France, under this determination, commanded all the gold she needed. When Waterloo came, with the invasion of the Allies, with war on her own soil, with a change of dynasty, and with heavy expenses for war and indemnities, France, on a specie basis, experienced no severe financial distress.

ANDREW DICKSON WHITE, *Fiat Money Inflation in France*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Spirit of Liberty

LEARNED HAND

WE HAVE GATHERED HERE to affirm a faith, a faith in a common purpose, a common conviction, a common devotion. Some of us have chosen America as the land of our adoption; the rest have come from those who did the same. For this reason we have some right to consider ourselves a picked group, a group of those who had the courage to break from the past and brave the dangers and the loneliness of a strange land. What was the object that nerved us, or those who went before us, to this choice? We sought liberty; freedom from oppression, freedom from want, freedom to be ourselves. This we then sought; this we now believe that we are by way of winning.

What do we mean when we say that first of all we seek liberty? I often wonder whether we do not rest our hopes too much upon constitutions, upon laws, and upon courts. These are false hopes; be-

---

These remarks by the late Judge Learned Hand seem as timely today as when delivered on May 31, 1944, at "I Am an American Day" ceremonies in Central Park, New York City.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

lieve me, these are false hopes. Liberty lies in the hearts of men and women; when it dies there, no constitution, no law, no court can save it; no constitution, no law, no court can even do much to help it. While it lies there, it needs no constitution, no law, no court to save it.

And what is this liberty which must lie in the hearts of men and women? It is not the ruthless, the unbridled will; it is not freedom to do as one likes. That is the denial of liberty, and leads straight to its overthrow. A society in which men recognize no check upon their freedom soon becomes a society where freedom is the possession of only a savage few; as we have learned to our sorrow.

What then is the spirit of liberty? I cannot define it; I can only tell you my own faith. The spirit of liberty is the spirit which is not too sure that it is right; the spirit of liberty is the spirit which seeks to understand the minds of other men and women; the spirit of liberty is the spirit which weighs their interests alongside its own without bias; the spirit of liberty remembers that not even a sparrow falls to earth unheeded; the spirit of liberty is the spirit of Him who, near two thousand years ago, taught mankind that lesson it has never learned, but has never quite forgotten; that there may be a kingdom where the least shall be heard and considered side by side with the greatest.

And now in that spirit, that spirit of an America which has never been, and which may never be; nay, which never will be except as the conscience and courage of Americans create it; yet in the spirit of that America which lies hidden in some form in the aspirations of us all; in the spirit of that America for which our young men are at this moment fighting and dying; in the spirit of liberty and of America I ask you to rise and with me pledge our faith in the glorious destiny of our beloved country. ◈

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

INCOME WITHOUT WORK

HENRY HAZLITT

A GROUP of social reformers, impatient with the present "rag bag" of measures to combat poverty, propose to wipe it out in a single swoop. The government would simply guarantee to everybody, regardless of whether or not he worked, could work, or was willing to work, a minimum income. This guaranteed income would be sufficient for his needs, "enough to enable him to live with dignity."

The reformers estimate that the guaranteed income ought to range somewhere between $3,000 and $6,000 a year for a family of four.

This is not merely the proposal of a few starry-eyed private individuals. The National Commission on Technology, Automation, and Economic Progress, established by Congress in 1964, brought in a 115-page report to the President on February 4 of this year recommending guaranteed incomes for all. And in January the President's Council of Economic Advisers indicated approval of "uniformly determined payments to families based only on the amount by which their incomes fall short of minimum subsistence levels." This plan, they declared, "could be administered on a universal basis for all the poor and would be the most direct approach to reducing poverty."

The plan is spelled out and argued in detail in a book called *The Guaranteed Income*, a symposium of articles by ten contributors, edited by Robert Theobald,

---

Mr. Hazlitt is the well-known economic and financial analyst, columnist, lecturer, and author of numerous books.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

who calls himself a "socio-economist." Mr. Theobald has contributed three of the articles, including his preface.

Of the following three paragraphs, Mr. Theobald prints the first two entirely in italics:

"This book proposes the establishment of new principles specifically designed to break the link between jobs and income. Implementation of these principles must necessarily be carried out by the government....

"We will need to adopt the concept of an absolute constitutional right to an income. This would guarantee to every citizen of the United States, and to every person who has resided within the United States for a period of five consecutive years, the right to an income from the federal government to enable him to live with dignity. No government agency, judicial body, or other organization whatsoever should have the power to suspend or limit any payments assured by these guarantees....

"If the right to these incomes should be withdrawn under *any* circumstances, government would have the power to deprive the individual not only of the pursuit of happiness, but also of liberty and even, in effect, of life itself. This *absolute right* to a due-income would be essentially a new principle of jurisprudence."

The contributors to this volume have arrived at these extraordinary conclusions not only because they share a number of strange ideas of jurisprudence, of "rights," of government, and of the true meaning of liberty and tyranny, but because they share a number of major economic misconceptions.

Nearly all of them seem to share the belief, for example, that the growth of automation and "cybernation" is eliminating jobs so fast (or soon will be) that there soon just won't be jobs for even the most industrious. "The continuing impact of technical change will make it impossible to provide jobs for all who seek them." The goal of "jobs for all" is "no longer valid." And so on.

Ancient Fears of Automation

The fears of permanent unemployment as a result of technological progress are as old as the Industrial Revolution in the late eighteenth and early nineteenth century. They have been constantly reiterated in the last thirty-five years and as often completely refuted. It is sufficient to point out here that not only has the average unemployment of slightly less than 5 per cent in the last twenty years not been growing, and that two-thirds of the jobless have usually remained so for pe-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

riods of not more than ten weeks, but that the total volume of *employment* in the United States has reached a new high record in nearly every one of these years.

Even if it were true, as the authors of the guaranteed income proposal contend, that the American free enterprise system will soon become so productive that more than anybody really wants can be produced in half the time as now, why would that mean the disappearance of jobs? And how could that justify half the population's, say, being forced to work forty hours a week to support the other half in complete idleness? Why couldn't everybody work only in the mornings? Or half in the mornings and the other half in the afternoons at the same machines? Or why could not some people come in on Mondays, others on Tuesdays, and so on? It is difficult to understand the logic or the sense of fairness of those who contend that as soon as there is less to be done some people must be supported in idleness by all the rest.

"An Absolute Right"

But that is precisely the contention of the advocates of the guaranteed annual income. These handout incomes are to be given as "an absolute constitutional right," and not to be withheld "under *any* circumstances." (Theobald's italics.) This means that the recipients are to continue to get this income not only if they absolutely refuse to seek or take a job, but if they throw the handout money away at the races, or spend it on prostitutes, on whiskey, cigarettes, marijuana, heroin, or what not. They are to be given "sufficient to live in dignity," and it is apparently to be no business of the taxpayers if a recipient chooses none the less to live without dignity, and to devote his guaranteed leisure to gambling, dissipation, drunkenness, debauchery, dope addiction, or a life of crime. "No government agency, judicial body, or other organization whatsoever should have the power to suspend or limit any payments assured by these guarantees." This is surely a "new principle of jurisprudence."

Unrealistic Cost Estimates

How much income do the guaranteed-income advocates propose to guarantee? They differ regarding this, but practically all of them think the government should guarantee at least what they and government officials call the "minimum maintenance level" or the "poverty-income line." The Social Security Administration calculated that the 1964 poverty-income line for nonfarm individuals was $1,540 a year. A nonfarm family

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of four was defined as poor if its money income was below $3,130. The Council of Economic Advisers has calculated that by this standard 34 million out of our 190 million 1964 population, or 18 per cent, were living in poverty. This is in spite of the $40 billion total spent in welfare payments, of which it estimated that $20 billion (in the fiscal year 1965) went to persons who were, or would otherwise have been, below the poverty-income line.

How much would a guaranteed-income program cost the taxpayers? This would depend, of course, on how big an income was being guaranteed. Many of the income-guarantee advocates think that a guarantee merely of the poverty-line income would be totally inadequate. They appeal to other "minimum" budgets put together by the Social Security Administration or the Bureau of Labor Statistics, some of which run up to nearly $6,000 for a family of four.

One of the contributors to the Theobald symposium makes the following estimates of the cost to the taxpayers of different guarantees:

For a "minimum maintenance" level of $3,000 a year: total cost, $11 billion a year.

For an "economy" level of $4,000: $23 billion a year.

For a "modest-but-adequate" level of $5,000: $38 billion a year.

These figures are huge, yet they are clearly an underestimate. For the calculations take it for granted that those who could get government checks of $3,000 to $5,000 a year, as an absolute guarantee, without conditions, would continue to go on earning just as much as before. But as even one of the contributors to the Theobald symposium, William Vogt, remarks: "Those who believe that men will want to work whether they have to or not seem to have lived sheltered lives."

Who Would Do the Work?

He goes on to point out, with refreshing realism, how hard it is even today, before any guaranteed income, to get people to shine shoes, wash cars, cut brush, mow lawns, act as porters at railroad or bus stations, or do any number of other necessary jobs. "Millions of service jobs are unfilled in the United States, and it is obvious that men and women will often prefer to exist on small welfare payments rather than take the jobs. . . . If this situation exists before the guaranteed income is made available, who is going to take care of services when everyone can live without working—as a right?"

Who is, in fact, going to take the smelly jobs, or any low-paid

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

job, once the guaranteed income program is in effect? Suppose, as a married man with two children, your present income from some nasty and irregular work is $2,500 a year. Comes the income guarantee, and you get a check in the mail from the government for $630. This is accompanied by a letter telling you that you are entitled as a matter of unconditional right to the poverty-line income of $3,130, and this $630 is for the difference between that and your earned income of $2,500. You are happy – for just a day. Then it occurs to you that you are a fool to go on working at your nasty job or series of odd jobs for $2,500 when you can stop work entirely and get the full $3,130 from the government.

So the government would, in fact, have to pay out a tremendous sum. In addition, it would create idleness on a huge scale. To predict this result is not to take a cynical view, but merely to recognize realities. The beneficiaries of the guaranteed income would merely be acting sensibly from their own point of view. But the result would be that the fifth of the population now judged to be below the poverty line would stop producing even most of the necessary goods and services it is producing now. The unpleasant jobs would not get done. There would be less total production, or total real income, to be shared by everybody.

The Shifting "Poverty Line"

But so far we have been talking only about the effect of the guaranteed income on the recipients whose previous incomes have been below the poverty line. What about the other four-fifths of the population, whose incomes have previously been above it? What would be the effect on *their* incentives and actions?

Suppose a married man with two children found at the end of a year that he had earned $3,500? And suppose he found that his neighbor, with the same-sized family, had simply watched television, hung around a bar, or gone fishing during the year and had got a guaranteed income from the government of $3,130? Wouldn't the worker begin to think that he had been something of a sap to work so hard for a mere $370 net, and that it would be much better to lead a pleasantly idle life for just that much less? And wouldn't the same thing occur to all others whose earned incomes were only slightly above the guarantee?

It is not easy to say how far above the guarantee any man's income would have to be for this consideration not to occur to him. But we would do well to remem-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ber the following figures: The *median* or "middle" income for all families in 1964 was $6,569. The median income for "unrelated" individuals was $1,983. People with these incomes or less – i.e., half the population – would be near enough to the guarantee to wonder why they weren't getting any of it.

Someone Must Pay

If "*everybody* should receive a guaranteed income as a matter of right" (and the italics are Mr. Theobald's), who is to pay him that income? On this point the advocates of the guaranteed income are either beautifully vague or completely silent. The money, they tell us, will be paid by the "government" or by the "State." "The State would acknowledge the duty to maintain the individual."

The state is a shadowy entity that apparently gets its money out of some fourth dimension. The truth is, of course, that the government has nothing to give to anybody that it doesn't first take from someone else. The whole guaranteed-income proposal is a perfect modern example of the shrewd observation of the French economist, Bastiat, more than a century ago: "The State is the great fiction by which everybody tries to live at the expense of everybody else."

Rights vs. Obligations

None of the guaranteed-income advocates explicitly recognizes that real "income" is not paper money that can be printed at will but goods and services, and that somebody has to produce these goods and services by hard work. The proposition of the guaranteed-income advocates, in plain words, is that the people who work must be taxed to support not only the people who can't work but the people who won't work. The workers are to be forced to give up part of the goods and services they have created and turn them over to the people who haven't created them or flatly refuse to create them.

Once this proposition is stated bluntly, the spuriousness in all the rhetoric about "the absolute constitutional 'right' to an income" becomes clear. A true legal or moral right of one man always implies an *obligation* on the part of others to do something or refrain from doing something to ensure that right. If a creditor has a right to a sum of money owed to him on a certain day, the debtor has an obligation to pay it. If I have a right to freedom of speech, to privacy, or to the ownership of a house, everyone else has an obligation to respect it. But when I claim a "right" to "an income sufficient to live in dignity," whether I am willing to work for

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

it or not, what I am really claiming is a right to part of *somebody else's* earned income. What I am asserting is that he has a duty to earn more than he needs or wants to live on so that the surplus may be seized from him and turned over to me to live on.

What the guaranteed-income advocates are really saying, behind all their high-sounding phrases and humanitarian rhetoric, is something like this: "Look, we find ourselves with this wonderful apparatus of coercion, the government and its police forces. Why not use it to force the workers to pay part of their earnings over to the nonworkers?"

Lack of Understanding

We can still believe in the sincerity and good intentions of these people, but only by assuming an appalling lack of understanding on their part of the most elementary economic principles. "This book," writes Robert Theobald, "proposes the establishment of new principles specifically designed to break the link between jobs and income." But we cannot break the link between jobs and income. True income is not money, but the goods and services that a money will buy. These goods and services have to be produced. They can only be produced by work, by jobs. We may, of course, break the link between the job and the income *of a particular person*, say Paul, by giving him an income whether he consents to take a job or not. But we can do this only by seizing part of the income of some other person, say Peter, from *his* job. To believe we can break the link between jobs and income is to believe we can break the link between production and consumption. Goods have to be produced by somebody before they can be consumed by anybody.

Claimants to Be Trusted, Taxpayers to Be Examined

One reason for the agitation for an unconditionally guaranteed income is the dislike of some social reformers for the "means test." The means test is disliked on two grounds – that it is "humiliating" or "degrading," and that it is administratively troublesome – "a comprehensive examination of means and resources, applicant by applicant." The guaranteed-income advocates think they can do away with all this by using the "simple" mechanism of having everybody fill out an income tax blank, whereupon the government would send a check to everybody for the amount that his income, so reported, fell below the government's set "poverty-line" minimum.

The belief that this income-tax

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

mechanism would be administratively simple is a delusion. Before the introduction of the withholding mechanism, before the reporting requirements for payments made to individuals in excess of $600 in any year, and the still more recent requirements for the reporting of even the smallest interest and dividend payments, the income tax was in large part a self-imposed tax. The government depended heavily on the taxpayer's conscientiousness and honesty. To a substantial extent it still does.

The government can check the honesty of individual returns only by a random or arbitrary sampling process. It is altogether probable that more evasion and cheating go on in the low income-tax returns than in the high ones — not because the big-income earners are more honest, but simply because their chances of being examined and caught are higher. The amount of concealment and falsification that would be practiced by persons trying to get as high a guaranteed income as possible would probably be enormous. To minimize the swindling, the government would have to resort to the same case-by-case and applicant-by-applicant process as it does to administer current relief, unemployment insurance, and social security programs.

Is a means test for relief necessarily any more humiliating than the ordeal that the taxpayer must go through when his income tax is being examined, and when every question he is asked and record he is required to provide implies that he is a potential crook? If the reply is that this inquisition is necessary to protect the government from fraud, then the same reply is valid as applied to applicants for relief or a guaranteed income. It would be a strange double standard to insist that those who were being forced to pay the guaranteed income to others should be subject to an investigation from which those who applied for the guaranteed income would be exempt.

Finally, the income-tax mechanism would be irrelevant to the real problem with which the guaranteed-income advocates profess to be concerned. For the applicants would presumably be reporting *last* year's income, which would have no necessary relation to their present need. An applicant's income in the previous year or other previous period might be either much higher or much lower than it is today. The process would not meet present emergencies, such as illness or temporary loss of employment. The guaranteed-income payment might either come too late or prove unneeded or excessive.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Old Subsidies Never Die

One of the main selling arguments of the guaranteed-income advocates is that its net cost to the taxpayers would not be as great as might appear at first sight because it would be a *substitute* for the present "mosaic" or "rag bag" of measures designed to meet the same goal – social security, unemployment compensation, medicare, direct relief, free school lunches, stamp plans, farm subsidies, housing subsidies, rent subsidies, and all the rest.

Neither the record of the past nor a knowledge of political realities supports such an expectation. One of the main selling arguments in the middle 1930's, first for unemployment insurance and later for social security, was that these programs would take the place and eliminate the need for the various relief programs and payments then in existence. But in the last thirty years these programs have continued to grow year by year with only minor interruptions. The result is that public assistance payments (including old age assistance, aid to dependent children, general assistance, etc.) have risen from a total of $657 million in 1936 to $4,736 million in 1963, an increase of 620 per cent. And this cost is *in addition to* the present $30 billion or more that the Federal government now spends annually on social security and other welfare programs.

So not only may we expect that the guaranteed-income would be thrown on top of all existing welfare payments (we can expect a tremendous outcry against discontinuing any of them), but that demands would arise for constant enlargement of the guaranteed amount. If the average payment were merely the *difference* between an assumed "poverty-line" income of, say, $3,000 and what the family had earned itself, all heads of families earning less than $3,000 would either quit work or threaten to do so unless they were given the full $3,000, and so allowed to "keep" whatever they earned themselves. And once this demand was granted (in an effort to avoid the wholesale idleness and pauperization that would otherwise occur), the people whose earnings were just above the government minimum, or less than twice as much, would point out how unjustly they were being treated. And the only "logical" and "fair" stopping place, it would be argued, would be to give *everybody* the full minimum of $3,000 no matter how much he was earning or getting from other sources.

Anyone who thinks such a prediction farfetched need merely recall how we got into the present

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

system of paying everybody over 72 social security benefits regardless of his current earnings from other sources, and paying benefits to every retired person over 65 regardless of the size of his unearned income from other sources. By the same logic, the British government pays comprehensive unemployment, sickness, maternity, widowhood, funeral and other benefits, and retirement pensions, regardless of need or the size of the recipient's income.

Incentives Undermined

We have seen how the guaranteed-income plan, if adopted in the form that its advocates propose, would lead to wholesale idleness and pauperization among nearly all those earning less than the minimum guarantee, and among many earning just a little more. But it would also undermine the incentives of those much further up in the income scale. For they would not only be deprived of the benefits that they saw millions of others getting. It is *they* who would be expected to *pay* these benefits, through the imposition upon them of far more burdensome income taxes than they were already paying. If these taxes were steeply progressive in proportion to income, as is probable, they would discourage long hours and unusual effort.

It is difficult to make any precise estimate of the effect of a given income-tax rate in discouraging or reducing work and production. Different individuals will, of course, be differently affected. The activities of a man whose whole income comes in the form of a single salary from a single job will be differently affected than those of a surgeon, a doctor, a writer, an actor, an architect, or anyone whose income varies with the number of assignments he is willing to undertake or clients he is willing to serve.

What we do know is that the higher income-tax rates, contrary to popular belief, just don't raise revenue. In the current 1966 fiscal year, individual income taxes are estimated to be raising $51.4 billion (out of total revenues of $128 billion). Yet the tax rates in excess of 50 per cent have been bringing in only about $250 million a year —— less than 1 per cent of total income tax revenues and not enough to run even the present government for a full day. (In other words, if all the personal income-tax rates above 50 per cent were reduced to that level, the loss in revenue would be only about $250 million.) If these rates above 50 per cent were raised further, it is more probable that they would raise less revenue than more. Therefore, it is the income-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tax rates on the lower and middle incomes that would have to be raised most, for the simple reason that 75 per cent of the personal income of the country is earned by people with less than $15,000 gross incomes.

Poverty for All

It is certain that high income tax rates discourage and reduce the earning of income, and therefore the total production of wealth, to some extent. Suppose, for illustration, we begin with the extreme proposal that we equalize everybody's income by taxing away all income in excess of the average in order to pay it over to those with incomes below the average. (The guaranteed income proposal isn't too far away from that!)

Let us say that the present per capita average yearly income is about $2,800. Then everybody who was getting less than that (and would get just that whether he worked or not) would, of course, as with the guaranteed-income proposal, not need to work productively at all. And no one who was earning more than $2,800 would find it worth while to continue to earn the excess, because it would be seized from him in any case. More, it would soon occur to him that it wasn't worth while earning even the $2,800, for it would be given to him in any case; and his income would be that whether he worked or not. So if everybody acted under an income equalization program merely in the way that seemed most rational in his own isolated interest, none of us would work and all of us would starve. We might each get $2,800 cash (if someone could be found to continue to run the printing machines just for the fun of it), but there would be nothing to buy with it.

A less extreme equalization program would, of course, have less extreme results. If only 90 per cent of all incomes over $2,800 were seized and people could keep 10 cents of every "excess" dollar they earned, there would of course still be a little incentive to earn a little more. And if everyone could keep 25 cents out of every dollar he earned above the $2,800, the incentive would be slightly higher.

But every tax or expropriation must reduce incentives to a certain extent. The effect of the guaranteed-income proposal would be practically to wipe out incentives for those earning (or even wanting) no more than the guarantee, and greatly to reduce incentives for all those earning or capable of earning more than the guarantee. Therefore the guaranteed-income would reduce effort and earning and production. It would violently reduce the national in-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

come (measured in real terms). And it would reduce the standard of living for four-fifths of the population. The government might be able to pay out the specified amount of guaranteed *dollar* "income," but the purchasing power of the dollars would appallingly shrink.

The Negative Income Tax

Recognizing the calamitous erosion of incentives that would be brought about by a straight guaranteed income plan, other reformers have advocated what they call a "negative income tax." This proposal was put forward by the prominent economist, Professor Milton Friedman of the University of Chicago, in his book *Capitalism and Freedom,* which appeared in 1962. The system he proposed would be administered along with the current income tax system.

Suppose that the poverty-line income were set at $3,000 per "consumer unit" (families or individuals), and suppose that the negative income tax (which is really a subsidy), were a flat rate of 50 per cent. Then every "consumer unit" (this is the statisticians' technical term) whose income fell below $3,000 would be paid a subsidy of, say, 50 per cent of the difference. If its earned income were $2,000, for example, it would receive $500; if its earned income were $1,000 it would receive $1,000; if its earned income were zero it would receive $1,500.

Professor Friedman freely concedes that his proposal, "like any other measure to relieve poverty . . . reduces the incentives of those helped to help themselves." But he argues that "it does not eliminate that incentive entirely, as a system of supplementing incomes up to some fixed minimum would. An extra dollar earned always means more money available for expenditure."

It is true that the "negative income tax" would not have quite the destructive effect on incentives that the guaranteed income would. Nevertheless, once the principle of the negative income tax were accepted, the demand would immediately arise that the minimum subsidy to be paid should be at least "adequate" to provide a minimum income to support a family "in decency and dignity." So we would be back to the minimum guaranteed income, *plus* supplemental subsidies for those who already had some earned or private income of their own. If this minimum were set at $3,130 for a married man with two children (to return to the Social Security Administration's "poverty-line" figure), this subsidy would be reduced, say, by 50 cents for every

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

dollar earned, and therefore would not stop entirely until the family's own earned income had reached $6,240.

Not Enough Rich to Soak

How many billions of dollars in subsidies this would involve, and what rate of income tax would be required on all families with incomes *above* $6,240 to raise the revenue necessary to pay these subsidies, if any rate could, I leave to the professional statisticians to calculate.

But it is obvious that this program could not be paid for by "the rich." If we were to subsidize all family incomes below $6,240 it would be hardly consistent to tax them. Yet *net* incomes below $6,000 (after exemptions and deductions) are now taxed at rates up to 22 per cent, beginning with 14 per cent even on the first $500 of net income. In fact, all personal net income of $6,000 or less is now the source of nearly 80 per cent of all personal income tax revenue. Yet, as I have already pointed out, the Census Bureau calculates that the median income for all families in 1964 was only $6,569; and taxpayers with adjusted gross incomes of $15,000 or less receive three-quarters of the total personal income there is to be taxed.

Neither a "negative income tax" nor a guaranteed income plan of the dimensions being suggested could possibly be put into effect with dollars of present purchasing power.

It may be added that the negative income tax would have all the administrative problems that would afflict the guaranteed income proposal — fraud, corruption, necessary applicant-by-applicant investigation, and irrelevance of payment to present need.

And once the main principle of either proposal were accepted, the minimum subsidy or guarantee demanded would be bound constantly to increase. Anyone who doubts this need merely consult the history of unemployment insurance and social security benefits since the plans were initiated in the 1930's. It is significant that several of the advocates of the guaranteed income acknowledge that their idea originated with the more modest negative income tax proposal of Milton Friedman. They just expanded it.

So knowing what we do of political pressures, and of the past history of relief, "social insurance," and other "antipoverty" measures, we are forced to conclude that once the principle of either the negative income tax or the guaranteed income were accepted, it would be made an addition to and not a substitute for

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the present conglomeration of relief and "antipoverty" programs. And even alone it would drastically reduce the productive incentives of those earning less than the guaranteed amount and seriously reduce the incentives of those earning more, because of the oppressive taxation it would necessarily involve. Its over-all effect would be to level real incomes down, not up.

Even at present our large and overlapping assortment of relief and antipoverty measures is seriously reducing incentives to the production that would otherwise be possible. Our social reformers have been everywhere overlooking the two-sided nature of the problem of reducing poverty. The obstinate two-sided problem we face is this: *How can we mitigate the penalties of misfortune and failure without undermining the incentives to effort and success?*

The Poor Laws of England

Our social reformers – who sometimes talk as if no government ever did anything to relieve the plight of the jobless and the poor until the New Deal came along in 1933 – are constantly deploring the alleged indifference, callousness, or niggardliness of our forefathers in dealing with the poor. But wholly apart from private charity, previous generations in their governmental capacity were sharply aware of the problem of poverty and made some effort to alleviate it almost as far back as the records go. There were "poor laws" in England even before the days of Queen Elizabeth. A statute of 1536 provided for the collection of voluntary funds for the relief of those unable to work. Eleven years later the City of London decided that these voluntary collections were insufficient, and imposed a compulsory tax to support the poor. In 1572 a compulsory tax for this purpose was imposed on a national scale.

But the problem soon proved a very serious one for the people of that age. The upper class was very small numerically and proportionately. The middle class itself was always very close to what we would today call the poverty line. The workhouse and other conditions imposed on those on relief seem very cruel to us today. But our ancestors were in constant fear that if they increased relief or relaxed the stern conditions for it they would pauperize increasing numbers of the population and create an insoluble problem.

At the beginning of the nineteenth century, indeed, the cost of poor relief began to get out of hand. The total cost of the poor

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

law administration increased fourfold in the thirty-two years between 1785 and 1817, and reached a sixth of the total public expenditure. One Buckinghamshire village reported in 1832 that its expenditure on poor relief was eight times what it had been in 1795, and more than the rental of the whole parish had been in that year.

In face of statistics of this kind, England's Whig government decided to intervene. It appointed a royal commission, and in 1834 a new and more severe poor law was passed in accordance with the commission's recommendations.

The guiding principle of the new law was that poor relief should be granted to able-bodied poor and their dependents only in well-regulated workhouses under conditions inferior to those of the humblest laborers outside. This seemed harsh, but the commissioners had argued that "every penny bestowed that tends to render the condition of the pauper more eligible than that of the independent laborer is a bounty on indolence and vice."

If the pendulum swung too far in the direction of severity and niggardliness in the middle nineteenth century, it may be swinging too far in the direction of laxity and prodigality today. A sweeping subsidization of idleness, such as is proposed by the guaranteed income, would only weaken or destroy all incentive to effort, not only on the part of those who were subsidized and supported, but on the part of those who would be forced to support them out of their own earnings. There could be no faster way to impoverish the nation.

The Cure Is Production

One of the worst features of all the plans for sharing the wealth and equalizing or guaranteeing incomes is that they lose sight of the conditions and institutions that are necessary to create wealth and income in the first place. They take for granted the existing size of the economic pie; and in their impatient effort to see that it is sliced more equally they overlook the forces that have not only created the pie in the first place but have been baking a larger one year by year. Economic progress and justice do not consist in beautifully equalized destitution, but in the constant creation of more and more goods and services, of more and more wealth and income to be shared.

The only real cure for poverty is production.

The way to maximize production is to maximize the incentives to production. And the way to do

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

that, as the modern world has discovered, is through the system known as capitalism – the system of private property, free markets, and free enterprise. This system maximizes production because it allows a man freedom in the choice of his occupation, freedom in his choice of those for whom he works or who work for him, freedom in the choice of those with whom he associates and cooperates, and, above all, freedom to earn and to keep the fruits of his labor. In the capitalist system each of us, with whatever exceptions, tends in the long run to get what he creates or helps to create. When each of us recognizes that his reward depends on his own efforts and output, and tends to be proportionate to his output, then each has the maximum incentive to maximize his effort and output.

No Effective Poverty Programs for Underdeveloped Countries

Capitalism brought the Industrial Revolution, and the enormous increase in productivity which this has made possible. Capitalism has enormously raised the economic level of the masses. It has wiped out whole areas of poverty, and continues to wipe out more. The so-called "pockets of poverty" constantly get smaller and fewer.

The condition of poverty, moreover, is relative rather than absolute. What we call poverty in the United States would be regarded as affluence in most parts of Africa, Asia, or Latin America. If an income sufficient to enable a man "to live with dignity" ought to be "guaranteed" as a matter of "absolute right," why don't the advocates of a guaranteed income insist that this right be enforced first of all in the poor countries, such as India and China, where the need is most widespread and glaring? The reason is simply that even the better-off groups in these nations have not produced enough wealth and income to be expropriated and distributed to others.

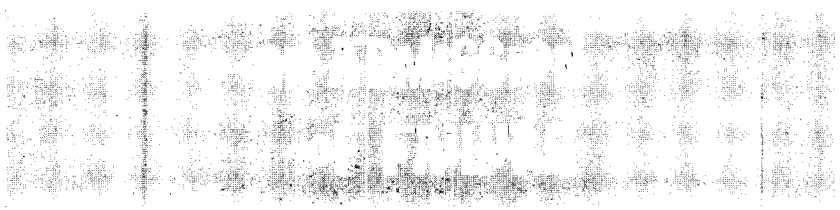
One of the guaranteed-income advocates, in a footnote, admits naively: "We must also recognize that we still have no strategy for the elimination of poverty in the underdeveloped countries." Of course they haven't. The "strategy" would be the introduction of free enterprise, and of incentives to work, to save, to accumulate capital, better tools, and equipment, and to produce.

But would-be income guarantors ignore or despise the capitalistic system that makes their dreams dreamable and gives their redistribute-the-income proposals whatever plausibility they have. The capitalist system has made this country the most productive and

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

richest in the world. It has continued to achieve its miracles even in the last generation, and to increase them year by year. It has raised the average weekly factory wage from less than $17 in 1933 to $110 today. Even after the rise in prices is allowed for, it has more than doubled our real per capita disposable income – from $893 in 1933 to $2,200 in 1965.

Allowed to continue to operate with even the relative freedom that it has enjoyed in recent years, the capitalist system will continue to produce these miracles. It will continue to make progress against poverty by a *general* increase in income and wealth. But short-sighted and impatient efforts to wipe out poverty by severing the connection between effort and reward can only lead to the growth of a totalitarian state, and destroy the economic progress that this country has so dearly bought. ◈



DONALD WALTER SHOROCK

THE "TRUE BELIEVER" of our day seems marked by a willingness to force others to act according to his beliefs. Too civilized to resort to direct open force, he advocates government action instead.

Much may be said for a person who is generous with his own resources, but a "true believer" wants everyone to be generous. Not that he would play the role of Robin Hood; his is the more civilized approach of asking government to do the job. Thus, the primitive "justice" of waylaying the tax collector and dividing his purse among harassed taxpayers becomes the "true believer's" rationale for seizure and redistribution of property that men have earned and are using in service to willing customers.

Those persons greatly concerned about the use of alcohol often follow similar tactics. It is not enough for them to understand that drinking can lead to loss of

Mr. Shorock is a senior majoring in Speech, with a minor in Economics, at Ottawa University in Kansas.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

judgment and injury to one's health. Nor is it enough, they say, to make these facts available so that others might come to the same conclusions. The "true believer" concerning the evils of drinking would not allow anyone to drink – would force him not to.

The person who advocates governmental redistribution of wealth is often heralded as the great humanitarian. And only the Prohibitionist is presumed to be deeply concerned about the drinking problem. Thus, those who have the least faith in their own ideas are judged to be the true believers.

If a person has faith enough in his own ideas, he feels no need to force others to accept his moral judgments and conclusions. If his premises and facts are sound and his logic valid, others should have no problem agreeing with his conclusions; and in case they do not, the failure may be his rather than theirs.

Those who would force others into agreement would seem to be admitting failure. Any idea which inspires so little confidence among its advocates is hardly worthy of becoming a law to govern everyone.

As a reminder of the foolishness of trying to force others to my standards of morality, I refer frequently to a small card at my desk:

> May I have ideas in which I have enough trust that I never feel a need to force others to live by them. And may I have ideas worthy of this trust.

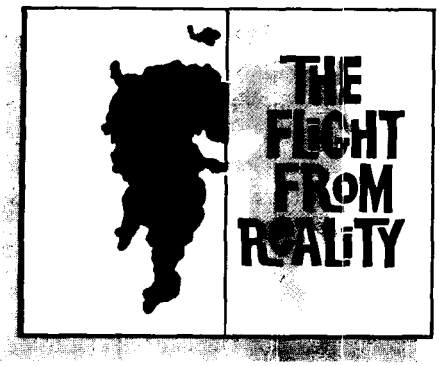
IDEAS ON LIBERTY

Princes and Paupers

FOR A MAN who can command another man's labor and self-denial for the support of his own existence is a privileged person of the highest species conceivable on earth. Princes and paupers meet on this plane, and no other men are on it at all. On the other hand, a man whose labor and self-denial may be diverted from his maintenance to that of some other man is not a free man, and approaches more or less toward the position of a slave.

WILLIAM GRAHAM SUMNER, *What Social Classes Owe to Each Other*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



22. Divide and Conquer

CLARENCE B. CARSON

IDEAS HAVE CONSEQUENCES, said Richard Weaver. He wrote a book on the subject, mainly to demonstrate that ideas which entered the stream of thought centuries ago have continued to inform our thought and unfold in the directions implicit in them. (Perhaps he also demonstrated in yet another way, how the sins of the fathers are visited upon the children to the seventh generation, or beyond.) Ideas have consequences in two realms. Ideas which serve as basic assumptions (often unconsciously held and unexamined) have consequences in the realm of ordinary beliefs and thoughts. When applied, ideas also result in acts, which have consequences. This can be stated as a proposition: Ideas lead to acts which have consequences.

This latter formulation facilitates a most important distinction. Our ideas may become more or less determinative in the area of thought and belief, and thus determine our actions. But ideas do *not* determine the consequences of acts. The consequences of acts follow, of necessity, from the nature of the acts. This is so because the universe is ordered in a certain way; it is so ordered that the consequences appropriate to the act follow from it. Ideas may be inaccurate, invalid, or bear no relation to reality. It is possible to act on the basis of such ideas. But action, any action, brings the one who acts into the orbit of reality. What follows is governed neither by his will, his

Dr. Carson is Professor of American History at Grove City College, Pennsylvania. Among his earlier writings in THE FREEMAN were his series on *The Fateful Turn* and *The American Tradition*, both of which are now available as books.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

beliefs, nor his claims about it. A man may, for example, believe that he is on the first floor of a building when he is actually on the twelfth floor. If a fire breaks out and he attempts to jump to safety from the window, he will fall twelve stories, probably to his death, just as surely as if he had known he was on the twelfth floor.

It is a measure of the extent of the general confusion of our age that so obvious a truth would need spelling out. It is generally accepted, at least among intellectuals, that ideas have consequences; but it is not usually admitted that acts have consequences which bear no necessary relation to the ideas and beliefs or motives which prompted them. If this were well known and admitted, there probably would have been no occasion for undertaking the work in hand; for this work is an account of men under the sway of an illusion, who are on a flight from reality.

The flight, however, has been in the realm of ideas. Once the ideas have been applied, a fateful junction with reality has been made; the consequences that have followed have been quite real, and they have been those that follow from such actions. The matter is more complicated than this sounds, however. There is a sense, also, in which the consequences have followed from the ideas – not from the claims about them, the hopes for them, or the illusions about them, but from the nature of the ideas themselves. Ideas, too, have the consequences appropriate to them when they are applied.

The misunderstanding of reformist intellectuals extends not only to the nature of the universe but also to the nature of ideas. Ideas must be about reality, else, when applied, they will produce not what is claimed and hoped for them but what must follow from their character. The inner contradictions of meliorism have borne their bitter fruit in actuality. Ideas which result in acts have consequences appropriate both to the ideas and to the acts.

Applying the Ideas

This work, thus far, has dealt mainly with the development of reformist ideas and their propagation. That is only part of the story. The ideas have been applied, and this application has had consequences. In many ways, the story of the application and consequences is more important than an account of the development of ideas. At any rate, intellectual history by itself is incomplete and misleading; it needs to be joined to actuality by an account of what happens when ideas are brought

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

to bear on reality. To do this, the first step is to deal with the application, and the second is to treat of the consequences.

Meliorism is the gradualist way to utopia. To accomplish utopia, society must be transformed. Meliorism is the method for gradually transforming society by the use of government power and force. It has been the perennial claim of meliorists that they believed in and were using democratic methods for transforming society.

There were tremendous obstacles in the way of translating meliorist ideas into action and none more formidable than those involved in attempting to justify the use of force to transform society in the name of democracy. The democratic use of force to transform society is such a basic contradiction that it should be rejected *prima facie* as preposterous. It has all the logic of a man's holding a gun to *his head* to force himself to do something. If those who make up a society want to change their ways of doing things, what is to keep them from it? They can only be prevented by force from making the changes they desire; and if government has a monopoly of force, the only obstacle to such changes would be government. But, in this case, all that would be needed would be to remove the governmentally enforced rigidity. There would be no call for the use of force to accomplish the transformation. For a society to be transformed democratically by the use of force would have to mean that the members of a society would be using or sanctioning the use of force on themselves to transform themselves. This is so unlikely that it will hardly be believed until the matter has been carefully examined.

The Beginnings of Society

The examination should begin by getting clearly in mind what society is and by making a careful distinction between society and government. "Society is produced by our wants," Thomas Paine said, "and government by our wickedness; the former promotes our happiness *positively* by uniting our affections, the latter *negatively* by restraining our vices." To make clear the natural origin and felicitousness of society, Paine imagined what might happen to people newly arrived in some land, under no compulsion but that of their own needs:

> In this state of natural liberty, society will be their first thought. A thousand motives will excite them thereto, the strength of one man is so unequal to his wants, and his mind so unfitted for perpetual soli-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tude, that he is soon obliged to seek assistance and relief of another, who in his turn requires the same.[1]

John C. Calhoun made a similar observation a few years later:

> In considering this, I assume as an incontestable fact that man is so constituted as to be a social being. His inclinations and wants, physical and moral, irresistibly impel him to associate with his kind; and he has, accordingly, never been found, in any age or country, in any state other than the social. In no other, indeed, could he exist, and in no other – were it possible for him to exist – could he attain to a full development of his moral and intellectual faculties or raise himself, in the scale of being, much above the level of brute creation.[2]

Society, then, is that which results from the needs of men to commune, to exchange, to specialize, to be nurtured, to learn, to express, to be solaced, to associate in common undertakings, to work, to play, to give, and to receive. A society is any community of men who share a preponderance of means – language, customs, habits, traditions, procedures, and beliefs – which facilitate such interchange and communion. Certain practices are anathema to society as well as being harmful to individuals, such as fraud, deception, violence, and thievery.

Government is that agency of a community which has a monopoly of the use of force for the legitimate purpose of keeping the peace by administering justice and deterring or punishing those who would do harm to individuals and disrupt the harmonious relations necessary to society (that is, to the peaceful association of men). As Calhoun said, "It follows, then, that man is so constituted that government is necessary to the existence of society, and society to his existence and the perfection of his faculties."[3]

Communications Changed

Those who speak of transforming society must mean the changing of the means generally employed in a society to facilitate interchange and communion. That is, they must mean to change the language, customs, habits, traditions, procedures, and/or beliefs, for there is nothing else to be changed.

Now these things do change, usually very slowly and over a long period of time. For example, language does change; new words are added and old words dropped, pronunciation subtly altered, and even the modes of expression varied. In the absence of force, it may be as-

[1] Gerald N. Grob and Robert N. Beck, eds., *American Ideas*, I (New York: Free Press of Glencoe, 1963), 190-91.

[2] *Ibid.*, p. 431.

[3] *Ibid.*, p. 432.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

sumed that changes in language occur in accord with other changes in the ways of people in a society and in keeping with what is acceptable to the generality of people or those who are looked to for standards.

In like manner, changes may occur in habits, customs, traditions, and procedures. It should be noted, however, that any drastic change in any or all of these will disrupt rather than facilitate social relations, will produce confusion and disorder rather than harmony. For example, if words are suddenly employed in unconventional ways, by decree, as it were, communication will be crippled, and uncertainty will prevail.

If the generality of people want to change their ways of doing things, there is nothing to prevent their doing so. There can be no occasion for the use of force (i.e., government) to produce the change on the grounds that it is what the people want. If they wanted it, they would have only to make the change. Actually, such evidence as I am familiar with would indicate that people do not ordinarily seek change, at least not most people. They may want to change others, but in their own affairs they cling tenaciously to the ways with which they are familiar. This is as it should be, for it means that such changes as are made will be limited, be accepted piece by piece, and will not be disruptive of human relations which make for society. Generally, only such changes will be accepted as can be fitted into the familiar pattern of one's life and social relations.

The Injection of Force

Force, aimed at transforming society, does, in fact, tend to destroy society. It introduces violence into the delicate framework of human relations; it produces resentment and resistance, and, at best, reluctant compliance. Men cannot be made to commune with one another; they can be forced to go through the motions of doing so. Society flees compulsion; it is formed once again in the interstices of the areas of the application of force. As these are closed up, society moves into the black market.

Examples of these developments are numerous in the contemporary world. Compulsory efforts at racial integration have resulted in the movement of people into the suburbs. Compulsory integration of recreational establishments have resulted in burgeoning private clubs. If a language is proscribed, people will speak it surreptitiously. If the sale of alcoholic beverages is prohibited, people will turn to bootleggers. If men cannot exchange goods on mutually acceptable

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

terms, because the law forbids it, they will do so illegally in black markets.

It is doubtful that society ever has been or can be destroyed, so long as men exist. So deep is the need for meaningful and fruitful relationships, for those that arise willingly out of men's desire to participate in them, that when society is driven from the public domain it will be formed once again in the byways and closets which men seek out and find.

Change by Conquest

It is unlikely that a people would invite such hardship upon themselves. So unlikely is it that attempts to transform society by force prior to the twentieth century have been made in two ways: by conquest and by revolution.

There have been a number of instances in history of conquerors attempting some degree of transformation in society. Before the Modern Era these usually had as their object the consolidation of rule and control by the conqueror. An example of this would be the changes made in England after the Norman Conquest. After William, Duke of Normandy, defeated Harold Godwin at the Battle of Hastings in 1066, he imposed his own system of feudalism upon England. He parceled out the lands to his warriors, making his lieutenants the great tenants-in-chief of the realm. He provided that in cases of subinfeudination the primary allegiance of all vassals would be to him and only secondarily to their particular overlord. Castles, the impregnable fortresses of the Middle Ages, could only be built when he licensed them. The Church was brought securely under William's control.

It is doubtful that William "transformed society" in England; rather, he changed the political organization so that the main lines of power led to and came from him. In general, local custom and tradition continued to hold sway, hardly altered by his innovations. He did authorize a census of the land, the results of which were compiled in the Domesday Book, but even this was met with a great deal of complaint and grumbling.

A somewhat more thorough effort at social transformation, after conquest, was made in the United States after the Civil War. Crusty Thaddeus Stevens proclaimed, from his pinnacle of power in the Congress, "The future conditions of the conquered power depends on the will of the conqueror." Congress proceeded with a right good will to attempt to reconstruct the South. By constitutional amendments slavery was abolished, prohibitions made against payment for slaves and the payment of the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Confederate war debt, and restrictions placed on state activity. The South was occupied by military forces, part of the population disfranchised, others enfranchised, and local governmental power fell into the hands of Carpetbaggers, Scalawags, and newly freed Negroes. These attempted to use the force of law, assisted and enforced by Federal troops, to transform the South. The South was changed, too, but not in accord with the vision of reconstructionists. The whites regained political power in the course of time, effectively disfranchised the Negroes, and new laws and practices were adopted in the light of altered conditions. Society lived on in the interstices of political power and, as force receded, regained sway in the lives of men.

Revolution is only a more subtle form of conquest, not an entirely different approach to social transformation. It differs from the conventional idea of conquest in that those who would reconstruct the society are not foreigners but come from among those whose lives they would change. (Even this distinction has begun to break down in the communist revolution of World War II and after.) Nonetheless, it is a kind of conquest, as all historical instances indicate.

Initially, there may be an attempt to make the changes by legislatures, though the members of these shortly cease to stand for election, if they ever did. Military forces are employed in subduing the population. In short order, all power gravitates into the hands of a single man – to Oliver Cromwell, to Napoleon Bonaparte, to Nicolai Lenin, to Mao tse Tung, and so forth – and he uses it to impose his will upon the populace. The differences between William of Normandy and Joseph Stalin are the differences made possible by technology and in aims. They were both conquerors.

By Vote of the People

A new phenomenon has occurred in the twentieth century: the concerted effort to transform society by force with popular consent. The truly amazing feature of this is that it apparently is being done. Elections are still held, devices for divining the popular will employed, and social reconstruction proceeding apace. Certainly, a great deal of ingenuity has gone into bringing about this state of affairs. As I have said, the use of the government to transform society by popular consent means that the populace must sanction the use of force upon itself to make it change its ways. It means, too, that men must support measures which decrease the control of their own affairs, that they must give their approval to the reduction of their

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

liberties. They must assent to the reduction of the avenues open to their voluntary endeavor. They must sanction the use of force in ever larger areas (for the transformation is to be achieved gradually) of their lives and the shoving of society into such corners as remain.

An example of how efforts at social transformation by force lead to just such consequences can be given from contemporary developments. One of the bonds that linked most Americans together in society has been religion. More specifically, almost all Americans have a Judeo-Christian background, and for most of them it is Christian. This bond was strengthened by the fact that force was removed from religion early in the history of the Republic, and men were able to live in peace with those of different sects, denominations, and churches while sharing many religious concerns and beliefs with one another. Communities frequently were sufficiently homogeneous in religious background to observe religious rituals in public affairs without giving offense to members of the community.

Eventually, though, the passion for social transformation was introduced into the schools. Attendance at schools was compelled, and schools were financed by tax monies. So long as this was done locally, conflicts about religious observance were minimal. But American society could not be transformed to the ideological prescription if local variation were permitted. Eventually, the governmental unit with power over all America must take over the direction and control of the public schools.

At this level, religious differences are magnified, and are a potential source of perpetual conflict as well as an obstacle to uniform social transformation. Religion must be driven from the schools; even voluntary practices cannot survive the uniform application of force in an area. There is a logic to recent Supreme Court decisions, however illogical they may appear from a strict construction of the Constitution.

Men have not *knowingly* consented to the use of force upon themselves to have their ways of life changed and their liberties circumscribed and reduced. It is conceivable that men, somewhere at some time, may have done or will do so. In some few instances, regarding particulars, they have probably done so in America. But as to an over-all effort at social transformation, which has been going on, Americans have not given their approval to it. Before any such undertaking occurred,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the government of America was taken from popular control. More precisely, the control of the United States government has been and is being taken bit by bit from the American people. There has been a rough correlation between the extent of social transformation and the decline of popular control.

The Democratic Way

The greatest irony of all, perhaps, is that this has gone on in the name of democracy, that is, in the name of government by the people. This development has been advanced subtly, and it must be described in detail before it can be understood or should be accepted.

Certain developments in ideas prepared the way for this flight from "democracy." They have already been presented and need only to be summarized here. Democracy was changed from a means to an end. As an end, it could serve as the object for doing things that could not be done in a "democratic" manner.

A most subtle intellectual device for taking attention away from the choice to be made has been for reformers to proclaim that whatever they wanted done had become inevitable as a result of trends and developments in history. Obviously, if it is inevitable there is no choice to be made, though one may go through the silly motion of ratifying the "inevitable" trend at the polls by voting for it. (Of course, there have been "die-hards" who have had the temerity to oppose the "inevitable.") At least, one will have voted; and that is, after all, all that matters! More subtly, men were prepared for the turning over of their affairs to supposed experts and authorities by scientism. There was yet another idea — the theory of classes and class struggle — which played a large part in the flight from popular government, but it can be brought up again in connection with the first major step in cutting society apart.

There should be no doubt, however, that majorities frequently have voted for the advocates of melioristic programs. At a casual glance, it looks as if the changes have been made with popular approval. When I say that they have not, I mean that men have not generally known what they were voting for. They have listened to the claims of politicians, not examined the nature of the actions proposed nor the substance of acts passed by legislatures.

Probably, not one person in ten thousand has read any considerable portion of the major acts passed by Congress in the last fifty years. Of those who have,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

a much smaller number can have understood much about them. As to the consequences of these acts, no man could, in a lifetime of study, perceive more than the outlines of them. It has been beyond the abilities of the electorate to give their approval to what has been done. At best, men have voted in favor of those who made certain claims, not for what was actually done.

Even so, electoral approval has meant more than this would suggest. The claims often reveal a part of the truth about the nature of what is to be done. It is unlikely that men will vote to have their ways of life changed, but they will vote for changing others. They will vote for those who promise to shackle railroad monopolies, break up the Wall Street money monopoly, make businessmen follow fair trade practices, curb the economic royalists, and handcuff predatory activity. Northerners will vote to make Southerners toe the line on the racial issue. Negroes will vote to make white men behave more congenially toward them. Farmers will vote for forcing industrialists to give them their "fair share" of the national wealth. The aged will vote to have the young taxed to support them. Parents can be attracted by the notion of having those without children assist in educating theirs. There is something irresistibly attractive to most people about others being penalized and oneself benefited.

Class Legislation

Divide and Conquer – that has been the method employed to bring about social transformation. Divide the population into classes: into capitalist and laborer, into farmer and industrialist, into white collar and blue collar, into urban and rural, into Negro and white, into old and young, into Protestant and Catholic. Sow seeds of discord throughout society. Tell the laborer he is being exploited by the capitalist. Tell the westerner he is being taken advantage of by the easterner. Tell the farmer he is the backbone of the nation but is having the marrow sucked out of the bone by miserly advocates of the gold standard. Tell Negroes they are being exploited by landlords turned slumlords.

Promise to change all this by forthcoming legislation: by the free coinage of silver, by antitrust acts, by creating a super banking system, by providing low interest long-term loans, by regulating the stock exchange, and so on. When the old demons – Wall Street, capitalists, millionaires – have been controlled or subdued, forge the classes into electoral

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

majorities by making war on abstractions, such as depressions and poverty. Such has been the history of gaining the semblance of popular approval for the effort at political transformation of society in recent decades.

The conquest has been much more subtle. There are many facets to it; for all those actions taken in the supposed interest of some group or class have had consequences. Some of these consequences will be explored at other points in the story. Here, however, the conquest will be examined only for its impact upon men as individuals and upon society, and the import of these developments upon popular government.

Individualism Denied

First, to the extent that a man has become class conscious, to the extent that he assumes the role that is imputed to him, to that same extent he has ceased to be a whole man. A man may be a worker, any sort of worker, and also be in favor of giving an honest day's work. He cannot, however, belong to the "laboring class" and insist upon giving a *quid pro quo* for his wages. As a "laborer," he must realize that management is out to do him in, overwork him, replace him, cheat him, in a word, exploit him. He must, therefore, insist upon doing as little as possible, resist additional duties, oppose the introduction of machinery, cling tenaciously to every prerogative and position ever created, though there may no longer be any purpose for it. If he belongs to the managerial class, he must see himself in opposition to the "laborers," though he may mute this because it may be advantageous to pose as the friend of labor. A man may be a Negro and oppose switchblade knives, but he cannot be a "Negro," a member of that newly arrived class, and openly oppose switchblade knives, because these are supposed to be symbolically associated with Negroes by white men.

Numerous other examples could be given, but perhaps it is unnecessary. Those who think in terms of class in the contemporary class struggle framework cannot act as whole men. Theirs is not the full-throated voice of man; it is a pipsqueak because part of him is cut off from the rest of him. A man cannot vote the interests of "labor" and vote his whole interests as a man. A man may be not only a worker in a factory but also a husband, a father, a son, a deacon in his church, a Mason, a golfer, a property owner, a debtor, a creditor, a consumer, a seller, a hunter, an army veteran, plus all those tangibles and intangibles which make

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

him the unique individual that he is. His interests are too much those of all other men to be expressed by any single facet of them called "labor." No majority of votes, however large, made up of those who have supposedly voted their class interests can indicate popular approval. It can only mean that a large number of people have voted some small portion of themselves, misled into thinking that they were voting for that which was in their interest.

Dissecting Society

The impact upon society is equally devastating. Those who have divided the American people into classes have not only set each man who accepts this against himself but also set men against men and groups against groups. They have broken down the lines of communication which link men together in society. Political force that was supposed to transform society has, instead, cut society apart. The politicalizing of life tends to make all groups into pressure groups, absorb the energy that is put into them into seeking favors from government. Those who seek meaningful social life must do so increasingly outside the ambit of organizations.

Yet society is transformed; it is rendered impotent. That is, those who would defend the language, customs, traditions procedures, and beliefs which make society possible, who would speak in the name of virtue and morality, are drowned out in the cacophony of voices defending one special interest or another. The conquest is of men and society. Of the conquerors, it may be said here that they have great power for their reward. But this was ever the object of conquerors!

Of course, there were other obstacles in the way of those who would use the power of government to transform society. The United States Constitution was probably the most important one. It was so drawn, according to James Madison, as to make exceedingly difficult the concert of special interests which might crowd out the general welfare. We will examine next the flight from the Constitution which made it possible to divide and conquer the American people. ◈

The next article in this series will pertain to "The Flight from the Constitution," Part I.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the Independent School

JOHN F. GUMMERE

THE INDEPENDENT SCHOOL provides an excellent example of free enterprise. In a field in which the product (or a legalized facsimile thereof) is available to everyone at no charge, thanks to taxes, independent schools must offer something which the general public thinks worth buying.

Tax-supported government programs go on and on, even when inefficiently and wastefully managed. This is not to say that public education is thus managed, but it is to say that the lifespan of a private enterprise depends very much upon how it is managed. It operates efficiently, or it goes out of business.

The rules of tenure for teachers were established to protect professionals against politics, ignorance, and other sins of boards of public education whose members were sometimes incapable of intelligent management of schools. Teachers were also protected against spite, malice, prejudice, and similar evils. But everybody who knows anything about tenure also knows that it serves to protect the mediocre.

Tenure is not granted in independent schools (there are very few exceptions). It is hopefully (and for the most part rightly) assumed that the managing boards of such schools will not be a prey to the ills referred to above. Moreover, the feeling is that no employer should be compelled to continue the employment of people who do not measure up. Thus, the free market again asserts itself. The teacher's protection is not that of legislation but of the

Mr. Gummere is Headmaster of the William Penn Charter School in Philadelphia.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

knowledge that he is doing a proper job.

Independent schools serve the interesting and vital function of providing services, ideas, innovations with which state-supported schools are not free to experiment.

In the free market, consumers determine which goods and services will be bought. Producers of goods and services are thus compelled to make them at least as good as, if not better than, competing suppliers do, or go out of existence.

Independent schools offer such services; and upon their management lies the heavy responsibility for making good. The teachers do not have tenure; therefore, upon them lies the necessity of doing their jobs well.

Those associated with independent schools, be they trustees, administrators, teachers, staff, know all this perfectly well. All are free to work where they are for the kind of education in which they believe, or to go somewhere else. Thus, management, teachers, and staff must produce and cooperate conscientiously and satisfactorily.

Meantime, the public evaluates what is offered, and is free to buy or not. The fact that the public is buying, more and more, and contributing generously in campaigns for funds proves the capacity of independent schools to survive and grow in a market much of which has been pre-empted by government. ◈

IDEAS ON LIBERTY

Individuals Know Best

THE TRUTH is that many different things are most important, each of us having his own idea of their relative importance, depending upon the time and circumstances. Each of us tends to do what seems most important to him at the moment, and this accounts for all human creativity and production. With our creative and productive specialties we come to be important to one another, often in ways which could not be foreseen and which many of us may never clearly understand. This variability in the subjective judgments of the importance of things is the basis of all trade and voluntary cooperation, enabling each productive individual to gain peaceful possession and use of vastly more than he could ever hope to attain strictly on his own.

VICTOR JACOBSON, "Most Important," *from Essays on Liberty*, Volume IV

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

WILLIAM H. PETERSON

The Businessman—Hero or Villain?

• *Dr. William H. Peterson was Professor of Economics at New York University's Graduate School of Business before joining the staff of United States Steel Corporation in 1964. This article is reprinted by permission from the February 12, 1966 special 75th anniversary edition of* Farmand, *oldest business journal in Scandinavia, published in Oslo.*

Dr. Trygve J. B. Hoff, 70 last November and editor of Farmand *since 1935, has won friends around the world with his staunch and undeviating stand for a society characterized by law and order, freedom, and respect for the individual and the dignity of man.*

Dr. Peterson is one of the several members of the Mont Pelerin Society contributing articles on various aspects of business and economics to this commemorative issue of Farmand.

Copies of the 240-page anniversary edition, in English, at $1.50 each, may be ordered direct from Farmand, *Roald Amundsensgt. 1, Oslo 1, Norway.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

• ITEM: "The hero," said Thomas Carlyle to a London audience in 1840, "can be poet, prophet, king, priest, or what you will, according to the kind of world he finds himself born into."[1] Significantly, in the midst of the Industrial Revolution, in the midst of probably the greatest single – and still ongoing – surge of material well-being for the ordinary citizen, Carlyle did not mention the businessman among his possible heroes.

• ITEM: In the 1880's social philosophers Herbert Spencer in England and William Graham Sumner in America viewed the businessman as a most creative and vital member of society. In the same period Horatio Alger's rags-to-riches novels, largely on successful businessman heroes, reached their zenith in popularity.

• ITEM: Each of the 450 freshmen at Antioch College in 1964 was asked to name his personal hero – i. e., any twentieth century person whom he most admired. The top ten heroes of 104 named were Mohandas Gandhi, John F. Kennedy, Winston Churchill, Franklin D. Roosevelt, Martin Luther King, Albert Schweitzer, Bertrand Russell, Eleanor Roosevelt, Albert Einstein, and Woodrow Wilson. Yet not a single one of the 104 turned out to be a Carnegie, Ford, McCormick, Nobel, Rothschild, Rockefeller, Morgan, or any other industrialist or financier. In other words, no Antioch freshman viewed any businessman as his hero although, probably, many fathers of the freshmen are businessmen.

So, even though the businessman has had his ups as well as downs in public esteem since 1840, his image at this hour of history still appears less than wholesome and constructive. For example, Amherst College reports 48 per cent of its alumni are businessmen, but fewer than 20 per cent of recent graduates have been entering business. Again, Harvard University reports only 14 per cent of its class of 1964 planned business careers, down from 39 per cent five years earlier, although part of this decline may be attributed to the growing popularity of working for advanced degrees. Said, in a typical vein, Arthur Lyon Dahl, a June 1964 graduate of Stanford University, of his classmates: "I know of almost no one who even considered a business career."[2] This situation seems to betray an ambivalent business image and does not bode well for the prospects of freedom

[1] *On Heroes, Hero-Worship and the Heroic in History* (London, 1871), p. 78.

[2] *The Wall Street Journal*, November 10, 1964.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

and free enterprise. Images are important; they reveal our thinking, our creeds, our inner conflicts; they influence our actions.

Now, if the word on the campus is that business is for the birds, if the word elsewhere is that the businessman is to be regarded as a suspicious creature who must be publicly controlled if he is to be privately tolerated, it follows that the climate for business will hardly be conducive to the full flowering of trade and investment or, more importantly, of individual values and human liberty.

Hence, saint or sinner, oracle or ogre, hero or hellion; what is the proper image of the businessman in a free society? The inquiry is fraught with some complication.

The Anticapitalistic Bias Among Intellectuals

For one, I think his image varies with the era, its values, and especially its intellectuals. Intellectuals are crucial in the art of image-making. And as a rule the intellectual, from Plato and Aristotle on, has rarely turned a kindly eye on the businessman, as may be inferred, for example, from the ancient and medieval castigations against usury and trade. In a typical vein, Cicero wrote in his *De Officiis:* "Those who buy to sell again as soon as they can are to be accounted as vulgar; for they can make no profit except by a certain amount of falsehood, and nothing is meaner than falsehood."[3]

Similarly, from that durable milieu of what von Mises calls "the anticapitalistic mentality," one should note the introduction to the Modern Library edition (1937) of Adam Smith's *Wealth of Nations.* For in this most popular edition in the United States and Canada, an edition read by countless college students, the introduction is made by Max Lerner, who does not hide his dis-sympathy with the business system, notwithstanding the fact that the Adam Smith work is a classic in defense of capitalism. Lerner labels Smith as "an unconscious mercenary in the service of the rising capitalist class," holds that Smith gave "a new dignity to greed and a new sanctification to the predatory impulses," maintains that the father of modern economics developed his essentially labor theory of value awkwardly and hence, "it remained for Marx to refine it, convert it into an instrument of analysis, and extract from it the revolutionary implications that were inherent in it from the start."[4]

Keynes, giant of economic

[3] Quoted by Lewis H. Haney, *History of Economic Thought,* 4th edition (New York, 1949), p. 79.

[4] p. x.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

theory in this century and image-maker extraordinary, also seemed to have had little love for the businessman. Free private investment, he held, swings on "the nerves and hysteria and even the digestions" of private investors, on "whim or sentiment or chance"; and "enterprise only pretends to itself to be mainly actuated by the statements in its own prospectus." Well, if businessmen are so whimsical, nervous, hysterical, pretentious, and untrustworthy to invest for the general welfare, what then? Keynes gives his prophetic answer: "I expect to see the State, which is in a position to calculate the marginal efficiency of capital goods on long views and on the basis of the general social advantage, taking an ever greater responsibility for directly organizing investment."[5]

Plainly, then, to many thinking people, especially intellectuals and college and university students, business does not come across as a preferred institution among other social institutions in a free society. Plainly the businessman is not always regarded as a constructive, forward-looking member of the community. Apparently the typical college student prefers to enter teaching, social work, scientific research, government work, the Peace Corps, or the professions of medicine, law, architecture, etc. Apparently many a student — and professor — looks upon business as little more than a dog-eat-dog world, dominated by the law of the jungle, corrupted by the drive for profit, and blind to almost every decent human value; and many other students and professors view business as a world of superficiality and conformity, a treadmill on which the individual gets nowhere and says nothing.

Productivity, Purpose, and Incentive to Save

Yet a big rub with such views of business and, indeed, with the whole problem of the image of the businessman, boils down to this: Precisely, what is a businessman? For business is an extremely protean and equivocal term and what people commonly assume to be a "businessman" may be altogether too arbitrary and too narrow a view. So much so that perhaps with a clearer understanding of just what a businessman is and what he is trying to do, the public may, hopefully, adopt a better image of him. But realistic, meaningful, and broadly applicable definitions of business — a word derived from "busy" — are hard to come by (as are, by the way,

[5] *The General Theory of Employment, Interest and Money* (London, 1936) p. 164.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

definitions for work and labor.[6]) For example, the editors of the four-volume *World of Business* (1962)—editor Edward C. Bursk of the *Harvard Business Review*, librarian Donald T. Clark, and business professor Ralph W. Hidy, all members of the Harvard faculty—concede that business is not easy to define and wind up not defining it. Similarly, Beardsley Ruml in his *Tomorrow's Business* (1945) also admits that defining business raises problems. For example, he is not sure whether farmers and professional people can be properly classed as businessmen. Still, his definition appears broad enough to include them, viz: "This is the business of business: first, to get things ready for use; second, to provide people with purposeful activity; and third, to give people a way to save productively a part of what they earn."[7]

In my judgment, the only workable definition of a businessman is necessarily a broad one, in that it should cover executives and entrepreneurs, bankers and sole proprietors, merchants and industrialists, professional men and newspapermen. Indeed, who in this advanced age of division of labor doesn't "profess" some specialization, some marketable skill? Hence, a more satisfactory definition of a businessman would appear to be simply that of a person who is continuously engaged in voluntary trade or exchange of goods or services, including his own, for profit. The two key words here are "voluntary" and "profit." Voluntary involves choice for both the buyer and the seller, and means free, without coercion, and would be inapplicable to individual economic action under socialism. Profit—the term derives from the Latin *profectus*, meaning an improvement or advance—means benefit or gain, not necessarily pecuniary gain, and as a goal recognizes that human action is motivated directly or indirectly by profit, including psychic profit, or conversely, by the avoidance of loss, including psychic loss. Socially, profit is a means of control and a measure of usefulness. The successful corporation is a demonstration of social worthiness; the unsuccessful corporation is a demonstration of social unworthiness. So through profit-and-loss signals the public rewards success, penalizes inefficiency and controls investment—and businessmen—providing them with strong incentives to adjust to society's

[6] For a searching analysis of this problem, see Roger M. Blough, "Work and the Individual in the Modern World," in *The One and the Many* by John Brooks and others (New York, 1962) pp. 173-208.

[7] p. 32.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

wishes. Thus do private incentives and business policy strongly tend to reflect the public interest.

To Each His Own Business

Under a broad definition of businessman, then, everyone from the street vendor to the head of General Motors or American Telephone and Telegraph is a businessman. And so, at least in some degree, is the accountant, actor, architect, artist, carpenter, doctor, engineer, musician, newspaperman, plumber, and, ironically, the intellectual—the writer, scientist, professor, playwright, etc. Each of these craftsmen sells his labor in the open market and buys goods and services on his own account. Frequently the motivation in these buying and selling activities is pecuniary. But even if not — and money, it must be remembered, is *not* an end in itself — it is still profit-oriented. The professor seeks gain in the form of the advancement of knowledge and the spread of education; the musician profits from musical enjoyment by himself and others; the physician derives psychic income from making sick people well; and so on.

Thus, as businessman Donald C. Cook of the American Electric Power Company observed in his "Intellect and Business: the Dialogue and the Challenge," the seventh annual Business Leadership Lecture at the University of Michigan in 1964,[8] every intellectual is in some degree a profit-oriented businessman and lives in a world shaped by business. Equally, every businessman worthy of his calling is in part an intellectual and is moved by the great ideas of his time. Each—intellectual and businessman — helps to create conditions to which the other responds; each is the customer of the other, giving and taking, buying and selling, and sharing generally.

At any rate, under a broad definition of the businessman, many in a free economy who do not consider themselves businessmen are actually already very much in business. Perhaps recognition of this broader definition could bring about an updated version of Molière's gentleman who discovered that he had been talking in prose all of his life. In other words, the public, hopefully, could come to the realization that practically everyone, male and female, young and old, rich and poor, is in business in one way or another, that in the words of Shakespeare, "every man has business and desire, such as it is." Even the housewife is in business for, when you think about it, the average American family currently earns and largely spends some $8,000

[8] *Michigan Business Review*, July 1964.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

annually which, if multiplied by 45 years of employment, comes to better than one-third of a million dollars – and that's quite a business. Thus, every "worker," through his labor and the power of his purse, is at once a producer and consumer, a buyer and seller, an employee and employer, a customer and supplier.

Consumer Sovereignty

The point is that if everybody is to some significant extent in business, is a part of business and must carry out business functions in his daily life, it follows that he is part businessman, that a widely-held negative image of the businessman is incongruous and not a little masochistic. Can one logically find fault with a segment of society for doing what the whole of society is at least in part already doing and, indeed, must do?

Too, the easy identification of the businessman as the boss does not seem to be overly logical with far-reaching division of labor and social cooperation. For, in the final analysis, every free agent from office boy to chairman of the board works for the same boss – the consumer. To be sure, the office boy may report to the office manager and the chairman of the board to the board of directors and the stockholders, but all – including the "independent" businessman, the man who says he is his own boss – take their ultimate orders from the customer, the quite sovereign consumer.

The customer, as merchant John Wanamaker noted, is always right, ever the final court of appeal. It was Grandfather who, in effect, put the buggy whip manufacturer out of business when he bought a Model T. It was the consumer who made Henry Ford big, who did in the Stanley Steamer and the Stutz Bearcat. It was Mother who did in, economically, the ice man when she bought a refrigerator. It is today's consumer who makes board rooms quake through his purchases and nonpurchases. It is through this power of purchase and nonpurchase that democratically the consumer in effect directs business, hires and fires people, and generally puts the nation's resources to work.

Of course, consumer sovereignty as a concept has not been widely accepted by the intellectual who, for that matter, frequently does not also seem to be especially aware of the highly pervasive nature of business. Still the intellectual's criticism of business and businessmen has served at times to correct abuses, to redress needful balances and to maintain humanistic and esthetic values. Unfortunately, the criticism has, on

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

occasion, also induced so-called "reforms" which have been harmful to the business system — and to the consumer. To take an extreme example, intellectual Karl Marx, who regarded businessmen as inhuman exploiters in the nineteenth century, helped to bring about the Communist Revolution in the twentieth century. On the other hand, in the eighteenth century, intellectual Adam Smith saw the businessman as a creative and vitally necessary member of society, and helped to establish the Industrial Revolution and the capitalistic order which still prevails in the Western world today.

A Businessman Serves Self by Serving Others

I agree with the Smith view and hold the correct image of the businessman is neither that of hero nor villain. Businessmen can be good; they can be bad. They run the gamut of the moral spectrum. Businessmen have founded museums, universities, hospitals, charities, foundations, etc., while serving in their main social function of promoting, organizing, and managing production to create goods and jobs. Some black sheep businessmen, to be sure, have indeed engaged in coercion, theft, and misrepresentation.

So a generalized hero or villain image of the businessman is not, in my judgment, tenable. A good image is tenable, however, because in the construct of the business system it is clearly in the interest of the businessman to give his best to his customers — i. e., to society — or else his competitors will, or his profits will fall. As Adam Smith pointed out, we do not speak to the butcher and the brewer of our need but rather of their advantage.

In any event, I believe the proper image of the businessman is neither that of knave nor knight, villain nor hero. He has a job to do — directly for himself, indirectly for society — and he does it. He is under the social discipline of profit and loss, under the iron rule of the consumer. And he should think well of his calling. For as Alfred North Whitehead spoke of the Great Society before that phrase became fashionable: "A great society is a society in which its men of business think greatly of their functions."[9] It follows, then, that with a better understanding of the businessman, everybody should have a better image of him — and of business. ◈

[9] *Adventures of Ideas* (New York, 1933) p. 124.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Of Men and Not of Law

THE MAIN BURDEN of Lyman A. Garber's *Of Men and Not of Law* (Devin-Adair, $3.95) is that our courts, led by the Supreme Court of the United States, are setting themselves up as super-legislatures and thus fracturing the tripartite "separation of the powers" that they have been sworn to uphold. The thesis is maintained with some wordiness, but in the semantic jungle in which we have all been scrabbling for certainty since 1933 maybe a lot of words are inevitable. The essential point is that Mr. Garber sustains his case.

Historically, the Supreme Court's usurpations divide themselves into two well-demarcated periods. In the nineteen thirties, when the New Deal was riding high, the Court laid down a number of tortured economic decisions. In the nineteen fifties and sixties, the questionable majority rulings were sociological in nature. Taken together, the two sets of rulings have virtually nullified the Ninth and Tenth Amendments to the Constitution. Amendment Nine, it may be dimly remembered, reads: "The enumeration in the Constitution of certain rights shall not be construed to deny or disparage others retained by the people." Amendment Ten reads: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

These amendments have been rendered meaningless by the Supreme Court's construction of the Interstate Commerce clause, the General Welfare clause, and the equal rights guarantee of the Fourteenth Amendment. By reading into the Constitution ideas that were never contemplated by the Founding Fathers, the judges

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

have effectively destroyed the old balance between the states and the Federal government in Washington. That they have done this in the name of morality is no excuse, for to change the law to conform to new canons of morality is the prerogative of the voters, who can always avail themselves of the amending process to accomplish ends that were not originally sanctioned in the Constitution of 1787.

"Nine Old Men"

In 1930, when he was Governor of New York, Franklin Delano Roosevelt said: "Washington must not be encouraged to interfere . . . in the matter of a great number of . . . vital problems of government, such as the conduct of public utilities, of banks, of insurance, of business, of agriculture, of education, of social welfare, and of a dozen other important features." But this was Roosevelt before he had listened to Rexford Tugwell and hired a brains trust. The brains trust consisted of chronic centralizers, and they spawned the Agricultural Adjustment Act of 1933 and the National Recovery Act. Both of these acts were called unconstitutional by the Supreme Court of the "nine old men," who held that Congress does not have the authority to manage business or to delegate the powers of management under the transparent guise of regulating interstate commerce.

Obstructed in the 1933-36 years by a majority of justices who were well acquainted with the deliberations of Madison, Jefferson, and other Founding Fathers, the New Deal later recreated the AAA by getting a new interpretation that raised the "General Welfare" clause of the Constitution to the rank of a specific power of Congress. The fact that Madison and Jefferson had repeatedly assured the electorate in the thirteen original states that the two words "general welfare" did not override specific provisions of the Constitution was conveniently overlooked by the new Supreme Court justices who had been appointed by 1937.

The words of the Constitution say that "Congress shall have the power to lay and collect taxes . . . to pay the debts and provide for the defense and general welfare of the United States." But never before 1937 had it been seriously held that "general welfare" might be any sum total of particular welfares that an Administration might choose to back in response to the lobbying of pressure groups. The new definition of "general welfare" meant that any "interest" could get anything if it could develop the political muscle to force its attention on Congress as

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

a deserving body of citizens. It did not matter that the particular welfare of particular groups would have to be paid for by tax levies on citizens who might be seriously injured by the semantic torturing of the General Welfare clause.

"Due Process"

With a new Supreme Court working its verbal magic to define any arbitrarily chosen particular welfare as "general welfare," the decks were cleared for practically anything at all. And once the notion of spending Federal money to subsidize the farmer had been justified under the Welfare clause, the Court followed by ruling in the *Wickard* v. *Filburn* case that "it is hardly lack of due process for the government to regulate that which it subsidizes." Accordingly, a farmer was penalized for raising wheat beyond a quota set by the Department of Agriculture.

Mr. Garber says that the argument that the wheat was for the sole consumption of the farmer's family and livestock was turned down on the unprovable ground that "if farmer Filburn had not raised his own wheat for his own use, he might conceivably have purchased it from the channels of interstate commerce." Since nobody could possibly know what the farmer might have done in a purely hypothetical case, the Supreme Court was venturing forth into mind reading, which is something that courts are forbidden under the law of evidence to do. It would have been just as rational for the Supreme Court to decide that a man standing before it might be a murderer because he had been endowed by nature with two hands that were capable of choking someone.

In the fifties and sixties the Supreme Court has taken to reading books on sociology, such as Myrdal's *An American Dilemma*. And, to enforce its sociological predilections, the Court has decided that the states cannot be trusted to run their own affairs in such matters as education and the control of their local election laws. It does not matter that the Federal government itself, with its Senate that gives equal representation to each state, was set up on the analogy of the colonial government of Connecticut, which allowed for geographical unit representation in one of its legislative chambers. In sheer defiance of the historical truth that the states had never contemplated delegating the power to apportion their local legislative districts to the Federal government, the Supreme Court has stepped in to tell the states what they may or may not do about local representation.

This is an absolutely clear case

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of judicial usurpation of the legislative power, but the usurpation has been accepted rather apathetically. Senator Dirksen has been trying to rectify matters, but he can't seem to gather enough votes for an amendment that would do nothing more than restore the Constitution to what it was before the Court arbitrarily changed it.

Harmony by Compulsion

Mr. Garber talks about many other cases that involve judicial "legislating." The integration of our school systems may be socially desirable, but Mr. Garber doesn't think the Supreme Court had the right to command it. Whether he is on sound ground here depends on one's feeling about the possibility of maintaining "separate but equal" schools under the old principle of segregation.

The trouble, in any case, is that integration of the schools becomes impossible wherever Caucasians, voting with their feet, move out of our big cities. Mr. Garber remarks that "the main cause of segregated living areas was not the inability of Negroes to move into areas occupied by Caucasians, but the Caucasians moving out . . . many square miles of Northern cities would become integrated every year if just half the Caucasians would stay where they had been living!" ◈

▶ YOUR CHURCH – THEIR TARGET, Edited by Kenneth W. Ingwalson, Better Books (Box 2096, Arlington, Va. 22202), 1966, 275 pp., $4.50 cloth, $3.00 paper.

Reviewed by Norman S. Ream

THE GENERAL DRIFT toward socialism in our society has tinged many clergymen with what Ludwig von Mises, doyen of classical economists, calls the "anticapitalistic mentality." But not all, as this book – a symposium by thirteen authors – attests.

During the years of the Great Depression, delegates to the national convention of one major denomination voted a resolution favoring the abolition of the capitalistic system and all the forms which sustain it. Year after year since that time other ecclesiastical bodies have consistently attacked free enterprise, the profit motive, individualism, and private ownership of property. Today, these same voices are almost always found with secular "liberals" urging increased governmental intervention, world government, admission of Red China to the United Nations, a negotiated peace in Vietnam, peaceful co-existence with communism, and so on.

One must not bring a blanket indictment against clergymen and churches, lest he harm the reli-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

gious forces which are friendly to economic and political liberty. These constitute the majority of churchmen, who have not, however, been able to make their weight felt. This book is a vehicle for "the other side," and Mr. Ingwalson has done us a great service in bringing together these essays and delineating for us, as his subtitle suggests, "What's Going on in the Protestant Churches." Perhaps of more interest and concern than the situation as it exists today is the illuminating insight one derives from the authors as to how we got where we are. This historical material, it seems to me, is particularly valuable; and very few men have a greater insight and understanding of this process than do Irving Howard, Howard Kershner, and Edmund Opitz – to name but a few of the contributors.

This book should be especially helpful to laymen who find it difficult to understand how and why the churches have become so involved in the political left, and to young theological students and ministers who need to know how the churches have been subverted and used by the socialists and communists.

I would quibble with one or two contributors who identify political liberalism with theological liberalism. The two are not logically joined, and, as a matter of fact, some of the best essays in the book are by men who are theologically liberal. But as the editor says in his Introduction, "These men may not always agree with each other on details. Neither will you agree with all they say. But the problem and challenge for laymen and clergymen has been made crystal clear." Amen!

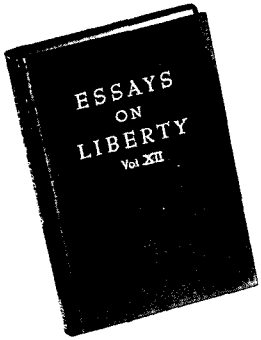
◈

THE FREEMAN on Microfilm

An agreement has been entered with University Microfilms to make available to libraries and others who may be interested current as well as back issues of **The Freeman** since January 1956. Inquiries should be directed to University Microfilms, 313 N. First Street, Ann Arbor, Michigan 48107.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ESSAYS ON LIBERTY



This latest volume of the series (448 pages, indexed) contains selected writings from THE FREEMAN and NOTES FROM FEE beginning with May 1964 through April 1965.

Volume XII

49 Essays — 31 Authors
Cloth, $3.00 Paper, $2.00

The Set—all 12 volumes

Cloth, **$28.80** per set
Paper, **$19.20** per set

ALSO, NOW AVAILABLE:

Comprehensive cumulative subject-matter, author, and title **INDEX**—covering all 12 volumes in the ESSAYS ON LIBERTY series.

$1.00

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.
IRVINGTON-ON-HUDSON, NEW YORK 10533

I enclose $_____ for the following:

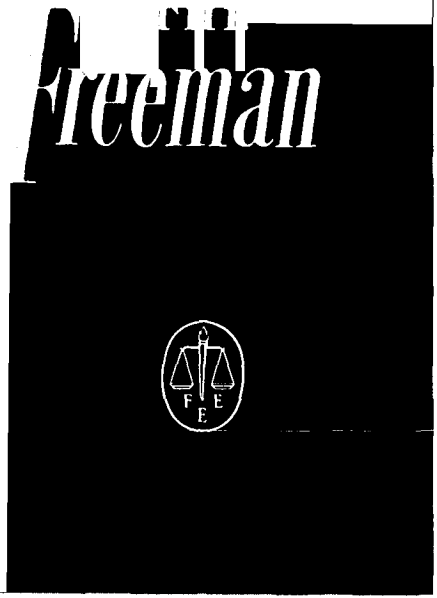
ESSAYS ON LIBERTY, Vol. XII:	_____ **copies, cloth, @ $3.00** _____ **copies, paper, @ $2.00**
ESSAYS ON LIBERTY, Twelve-vol. set:	_____ **sets, cloth, @ $28.80** _____ **sets, paper, @ $19.20**
INDEX, covering 12 vols.	_____ **copies @ $1.00**

MY NAME_____

STREET_____

CITY, STATE, ZIPCODE _____

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



THE FREEMAN may be forwarded anywhere in the U. S. A. No wrapper required.

From:

THE PROPERTY BASE

■ The market, which is the characteristic institution of capitalism, expresses a relationship of buyer and seller. It is, in effect, what results when free choice is applied to the disposition of property — or of what is made with the use of property, by "mixing" labor with it. The comparisons which the market permits lead to the creation of value, which is a compromise of individual judgments. The seller seeks to cover the labor and energy he has expended, plus a profit; the buyer seeks to save himself labor and energy by making an exchange. Two subjectivities meet in an objective price. But behind the creation of value there must be ownership — the right to dispose of a good or a service.

So we come back to property as the base for liberty.

JOHN CHAMBERLAIN, The Roots of Capitalism

To: _____

_____
street

_____
city state zip code

PLACE 5-CENT POSTAGE HERE

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED